



Your sparring partner for success.

Annual report 2010.

# At a glance

	2010 CHF m	2009 CHF m	2008 CHF m	2007 CHF m	2006 CHF m
<b>Balance sheet</b>					
Balance sheet total <sup>2)</sup>	17,119.8	17,239.5	16,887.8	15,739.0	14,973.0
Mortgage loans	13,696.6	13,226.6	12,711.8	12,368.8	12,084.9
Due to customers in savings and deposits	8,148.0	7,640.4	6,593.1	5,789.8	6,195.1
<b>Income statement</b>					
Net operating income <sup>2)</sup>	361.4	368.7	335.8	349.5	340.9
Gross profit <sup>1)2)</sup>	186.9	207.3	184.8	199.1	193.4
Annual net profit	108.9	106.3	96.1	98.9	94.8
Dividends on certificate capital	18.8	18.8	17.1	24.0	22.4
Profit distribution to the canton	40.0	40.0	34.0	34.0	32.0
<b>Further details</b>					
Personnel (headcount)	700	689	675	669	661
Personnel (fulltime equivalents)	629	620	609	603	598
Number of branches	27	27	27	31	31
Assets under management	12,369	12,511	11,450	12,640	12,141
Average interest margin	1.497%	1.521%	1.355%	1.498%	1.531%
Return on equity <sup>2)4)</sup>	11.11%	14.96%	11.75%	12.52%	13.28%
Cost-income ratio <sup>1)2)5)</sup>	43.35%	41.87%	44.96%	43.03%	43.25%
<b>Kantonalbank certificate</b>					
Share price (CHF), end of year	1,280.00	1,036.00	975.00	973.00	1,004.00
Nominal value (CHF)	100.00	100.00	100.00	100.00	100.00
Dividend per KBC (CHF)	33.00	33.00	30.00	30.00	28.00
Market capitalisation <sup>3)</sup>	2,777.6	2,248.1	2,115.8	2,335.2	2,409.6

<sup>1)</sup> 2008 / 2009: key figure adjusted by expenses and provisions for financial restructuring of pension fund (FER 16)

<sup>2)</sup> 2008: restatement according to the principle of "true and fair view"

<sup>3)</sup> Certificate and endowment capital, see calculation page 13

<sup>4)</sup> 2008: key figure adjusted by provisions for IT migration

<sup>5)</sup> 2008 / 2009 / 2010: key figure adjusted by expenses for IT migration

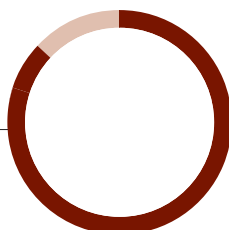
# Highlights 2010

## Highest marks

The employees of Basellandschaftliche Kantonalbank give their employer highest marks. The survey states the employees' overall satisfaction at 87%, which is 6% higher than what the last survey revealed. Roughly 80% are very satisfied in their job and are able to apply their knowledge and competence to perfection.

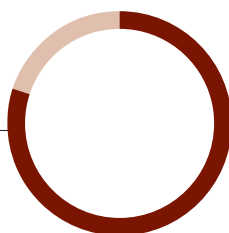
87%

overall satisfaction



80%

highly satisfied in their job



## AAA

For the ninth consecutive time, the international rating agency Standard&Poor's (S&P) conferred the highest mark of AAA to Basellandschaftliche Kantonalbank for their creditworthiness. S&P's report states: "Basellandschaftliche Kantonalbank counts among the strongest capitalised financial institutions in an international context".

## REGIO

### Launch of the Regio Basel Index

The economic region of north-western Switzerland is one of the strongest economic regions in the world. Based on that knowledge, Basellandschaftliche Kantonalbank launched the BLKB Regio Basel Index® on 1 September 2010. This index comprises the 18 most important businesses of the region. Up to 31 December 2010, its performance was clearly ahead of the SMI.

# 13,696,590,000

+ 470 m

The complete portfolio of mortgages at Basellandschaftliche Kantonalbank has grown to CHF 13,700 m, which is CHF 470 m more than in the previous year.

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# 121

## IT migration

Since 4 October, Basellandschaftliche Kantonalbank has been operating on the IT platform of Avaloq. Migration from the old platform to the new one ran according to plan. The bank's expenditure for the project amounted to 15,000 man-days or 68 man-years. The employees of the implementing partner company Comit invested 11,761 man-days or 53 man-years.

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# +1.1%

## Operational record performance

Basellandschaftliche Kantonalbank reached an operational all-time high. Net interest, commission, and trading income at CHF 355.2 m exceeded the record year of 2009 (CHF 351.2 m).

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## New members to the Executive Board

Lukas Spiess, successful head of Corporate Customers for more than 20 years, reached retiring age and withdrew from his active working life. Daniel Brändlin, his successor, is a proven expert with valuable experience in banking and in his capacity as a CFO of medium-sized companies. The election of Herbert Kumbartzki as the CFO and Chief Risk Officer enlarged our Executive Committee from five persons to six.

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## Passed

All nine apprentices in their third year passed the exams successfully. Four apprentices counted among the best. They are Lorena di Angelo, Dominik Graf, Ruven Schürch, and Simon Fankhauser. Eight of the finishing nine continue to work for Basellandschaftliche Kantonalbank.




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## Best of the best

At the ceremony of the red dot design award in Essen, Basellandschaftliche Kantonalbank was honoured with the "best of the best" prize for their annual report 2009. It was one of five reports considered to be the best. A total of 6,369 works coming from 23 countries were submitted for evaluation.



Wilhelm Hansen chairman of the Board of Directors, Dr. Beat Oberlin chairman of the Executive Board

# Consolidating our strategy ensures a sustainable development and strengthens our business with corporate customers.

## The basis to success

The reporting year was marked by a very high indebtedness that affected states on an international level, but mainly on a European level. Under pressure from ever-mounting costs of borrowing, several countries in the euro-area had to accept a rescue package from the European Union. Positive developments were increasingly overshadowed by the financial crisis. Nevertheless, the world economy proved to be stronger than anticipated so that a recession in the US or in Europe could be averted.

The Swiss economy fared remarkably well in this difficult environment and in spite of a soaring Swiss franc. Following the animated business recovery of the first six months, the group of federal experts forecast a significantly higher growth. Within Switzerland, our region again played an outstanding role.

Basellandschaftliche Kantonalbank also profited from this positive business development. Net income from interest, commission, and trading business amounts to CHF 355.2 m and is at 1.1% slightly higher than in the record year of 2009. Given the strain the IT migration put on our employees, we consider this to be a very favourable result. Although the year was extremely demanding, our bank was able to place some important milestones on the way to sustainable growth.

## Executive Board enlarged

On 1 October 2010, Daniel Brändlin took over the business area Corporate Customers from Lukas Spiess who had managed this business area with great skill for more than 20 years, making BLKB the number one bank with small and medium-sized enterprises. Daniel Brändlin is a seasoned expert with considerable banking experience on the one hand, and intimate knowledge of SMEs on the other, having been head of finance with two such enterprises.

Another addition to our management is Herbert Kumbartzki, member of the Executive Board since 1 October. In 2007 he became CFO and CRO with Basellandschaftliche Kantonalbank. In this position he has been responsible for the accounting, controlling and risk control. With this promotion, Bankrat honours the mounting importance of the business area Finance and Risk Office.

“Bankrat fortifies the Executive Board by adding the head of Finance and Risk Office as a new member.”

## Strategic guide rails defined

At one of their workshops, the Board of Directors (Bankrat) and the Executive Board assessed their business strategy and specified or supplemented it in certain areas. The basic principles of the current strategy were confirmed. The bank pursues a continuous and sustainable corporate development in the sense that it should strive for a long-term balance of economic, ecological, social, and ethical aspects of its entrepreneurial activities. The bank's commitment is mainly towards its customers, the canton, the bearers of KB certificates, the employees, and partners and suppliers.

Further development of operations with customers in the areas of Private Customers and SMEs remains at the centre of attention for Basellandschaftliche Kantonalbank. However, considerable emphasis will be placed on intensifying operations with bigger companies and on an increasing use of the e-channel in distribution, marketing, and corporate communications.

In these areas, Basellandschaftliche Kantonalbank wants to be a sparring partner for its customers and employees so as to be on a par with them in the exchange of ideas and opinions. That's the core of the new brand positioning which is the basic message of an advertising campaign and this annual report.

#### **Successful IT migration**

Migrating to Avaloq on the first weekend of October, spelt the successful closure of the bank's most ambitious project of the last years. Changeover to the new IT platform ran according to plan. The system has been in operation since 4 October 2010. The big challenge now is to iron out the remaining imperfections thus assuring banking operations of the customary high quality for our clients. The platform conversion is also a prerequisite for the expansion of our electronic bank services.

#### **Niche player in the capital market**

Basellandschaftliche Kantonalbank significantly increased its activities in the capital market. The year under review saw placings of roughly CHF 1,000 m. With this volume, Basellandschaftliche Kantonalbank ranks among the top Swiss Cantonal Banks.

#### **Financial restructuring of the pension fund**

On 1 January 2011, the pension fund of Basellandschaftliche Kantonalbank changed from a defined benefit plan to a defined contribution plan. The condition for this change was to fully cover the existing funding gap. The solution was developed in cooperation with the pension fund of Basellandschaftliche Kantonalbank.

#### **Recognised risk management**

Basellandschaftliche Kantonalbank is fully aware of the high responsibility it bears vis-à-vis its customers and the Canton of Basel-Landschaft, its main owner. As a matter of principle, the bank only concludes business it understands, and incurs risks of which it can assume responsibility. Confirmation of this policy is given by Standard & Poor's in their latest report. The rating agency again awarded the bank with AAA, the highest mark, and stated that Basellandschaftliche Kantonalbank counts "among the strongest capitalised financial institutions – in an international context". Another impressive proof of BLKB's successful risk policy is the fact that the demand for provisions from risk positions has been extremely low for years.

#### **Distinctive building for Liestal**

Construction of the business building called "UNO" right next to the train station of Liestal is progressing as planned. By the end of 2011, the edifice is supposed to be completed, and in 2012 the tenants will be able to move in. Already now, all the shop units on the ground floor are let.

### Comprehensive commitment to the region

Apart from its economic duties in the region, Basellandschaftliche Kantonalbank also emphasises its commitment to a sustainable policy by playing an important part in the cultural and social life of the canton. Several projects or institutions count on the bank's backing such as the Maestro-Job-Factory card which advances the integration of young people into the job market, or on the granting of scholarships from BLKB's Cultural Foundation. As a partner of the "Ballet Basel" or the main sponsor of "Viva Cello", a cello festival, Basellandschaftliche Kantonalbank is also involved in the top culture of a top economic region. Additionally, there are a number of cultural projects or sports events we support. The roughly 400 associations in the canton profit from our association service that contributes to the liveliness of associate life in the canton.

"With our dedicated staff  
we will continue to strengthen  
our position as number 1 in  
our business area."

### High employee satisfaction

We are very pleased to see the results of this year's survey of employees. It was carried out at a time when the work load was particularly high due to the migration of the IT platform. Even so, 87% of the personnel were satisfied and 83% said they were very motivated. According to the survey, only 5% of the employees were dissatisfied. Compared to other companies, this is a great success and proof of a very good and motivating corporate philosophy.

### A look ahead

We are cautiously optimistic for the year 2011. Difficulties in the euro-zone and a huge indebtedness all over the world are promoting insecurity and anticipation of volatile markets. Business recovery in Switzerland will not come to a standstill but it will be slower than in 2010.

Expectations for our bank in 2011 will centre around a continued sustainable growth and a result equal to last year's. A point in favour will be the fact that our business activities take place in an economically privileged environment with healthy companies and a high percentage of life science enterprises. We are confident that we will be able to further our investment and corporate business and thus cement our position as number one in our business area. In doing so, we can count on our highly motivated staff and managers. Our heartfelt thanks go to them for their commitment and their loyalty.



Wilhelm Hansen  
Chairman of the  
Board of Directors

Dr. Beat Oberlin  
Chairman of the  
Executive Board

# Basellandschaftliche Kantonalbank: fit for the future.

In 2010, compared to the previous year, gross profit increased by 26.9% to CHF 186.9 m. Net profit for the year went up by 2.4% to CHF 108.9 m. The increase of net new money is CHF 345.6 m. Dividends at CHF 33 per KB certificate and profit distribution to the canton remained unchanged.

## Interest business: further growth

At CHF 271.3 m, net interest business went up by 1.1% compared to the previous year. Rising numbers of loans and an increase in savings and deposits as well as the consistent implementation of the long-term ALM strategy led to the increase in interest business.

## Increase in mortgages and loans

Mortgage loans went up by 3.6% to a new record high of CHF 13,700 m. Other loans, the majority of which unsecured, rose by 38.3% to CHF 982.9 m.

## Consistent risk policy

The bank consistently maintained its risk policy of responsibility which is reflected in the balance sheet item value adjustments, provisions, and losses. At CHF 2.8 m, this item is as low as ever.

## Further growth of savings

Savings and deposits grew by CHF 507.6 m (6.6%) to CHF 8,100 m. However, due to the low level of interest rates, cash bonds suffered considerably. They went down by 40.8% to CHF 445.7 m.

## Increase in the fee and commission business

Net fee and commission income went up slightly by 0.9% to CHF 68.7 m. Net commission income from securities and investment rose by 5.3% to CHF 56.1 m. Net commission income on lending activities amounted to CHF 2.5 m (-1.9%) which is approximately at the previous year's level. The decline of the other fee business results from the sale of AAM Private Bank.

## Trading business stable

Net income from the trading business of CHF 15.3 m is at 2.6% slightly higher than the year before. With bonds of around CHF 1,000 m, BLKB made itself a name for private placings in the financial markets.

## Downward trend for other income

Net other income fell by 65.1% to CHF 6.1 m. This result is mainly attributable to the fact that proceeds from the sale of property went down by 7.1 m, and participation income was reduced by the sale of AAM Private Bank.

## Upturn in the net operating income

Operating business (interest business, fee and commission business, trading) increased by 1.2% to CHF 355.3 m. All in all, net operating income declined by 2% and amounted to CHF 361.4 m. This decrease results from the decline in the net other income.

## Costs kept under control

As in previous years, cost discipline played an important part in 2010. Operating expenses went down by CHF 57.1 m (21.2%) to 174.4 m and personnel expenses declined by 36.8% to CHF 98.1 m. Provisions of CHF 60 m made in 2009 in order to fully cover the funding gap of BLKB's pension fund was a nonrecurring event. Other operating expenses increased by 15.3% to CHF 76.3 m. The increase is largely due to the IT migration project which was carried out in October 2010.

## Increase in gross profit

Gross profit, which amounted to CHF 186.9 m (+26.9%), is marked by several extraordinary factors. On the debit side, expenses decreased by those CHF 60 m for the 2009 full cover of the pension fund. However, IT migration caused additional costs of CHF 10.7 m. On the credit side, there is a negative impact because of the decline in the net other income

and the income reduction from the sale of AAM Private Bank. Gross profit, which was adjusted for special items (full cover of pension fund and IT migration), amounted to CHF 204.7 m, a decline of 4.5% compared to the previous year.

#### **Cost-income ratio**

Cost-income ratio at 43.4% (special expenses for IT migration excluded) lies within BLKB's targeted range of 40–50%.

#### **High level of equity capital**

The coverage ratio of equity capital is 209.4% (without Cantonal Bank discount) which corresponds to a Tier I of 16.8%. Since 31 December 2008, BLKB has been obliged to disclose certain information regarding coverage of own resources or rather its risk situation. They are published at [blkb.ch](http://blkb.ch).

#### **Dividends paid to owners**

Thanks to the good results, owners of KB certificates could count on unchanged payment. Dividend per certificate is CHF 33, the profit share of the canton is CHF 40 m. Total distribution to the canton is CHF 48.2 m. Cash-out ratio is at 42.2% of the annual profit.

#### **Annual profit increased**

After a deposit of CHF 50 m into reserves for general bank risks (2009: CHF 35 m), net profit for the year at 108.9 m is 2.4% above the previous year.

#### **New IT structure**

With the successful IT migration to the Avaloq banking system, the bank is fit for future challenges put forward both by customers and regulatory authorities in the field of information technology. Creation of an IT department of our own confers more independence to the bank and benefits the employees working in that important field.

#### **Enlargement of the Executive Board**

The past year brought some changes to the Executive Board. Herbert Kumbartzki, head of Finance and Chief Risk Officer, has been lending his support to the panel since 1 October 2010. On the same day, Daniel Brändlin took over the business area Corporate Customers from Lukas Spiess. Thanks to his many years in banking, his know-how as a loan specialist, and his ten years as a CFO, Daniel Brändlin is the perfect sparring partner for BLKB's corporate customers.

#### **Rotation in the panel of the Board of Directors (Bankrat)**

The new term of office, starting on 1 July 2011, will see a change at the head of the Board of Directors. Wilhelm Hansen, the current chairman, will become a member of the Audit and Risk Committee (ARC) where he will deal with regulatory questions. The Bankrat's recommendation to the Regierungsrat (executive body of the canton) is Elisabeth Schirmer as the new chairwoman. The manageress (representative of the board of directors of RONDA AG) has been a member of Bankrat since 2000: As a member of the Executive Committee she mainly deals with strategic questions. Daniel Schenk (CEO of Baerle AG) is another experienced manager who will supplement the Executive Committee with his knowledge of strategy and his experience in the industry. Currently, he is the chairman of the ARC and has been a member of Bankrat since 2000. Dieter Völlmin, member of the ARC and of the Board of Directors since 2007, will be his successor. Finally, Paul Hug, member of Bankrat since 1987, will step down at the end of his current term of office. All remaining members will run for another term of office.

## Corporate Governance.

A sparring partner trusts his opposite number, and s/he in turn has to be able to trust her/him which requires a certain measure of transparency and mutual understanding. Corporate Governance will equip any company with the appropriate framework for that purpose.

Basellandschaftliche Kantonalbank is a company under public law, independent of state administration. The legal basis is formed by the following cantonal laws:

- Cantonal Law on Kantonalbank of 24 June 2004, in force since 1 January 2005 (Systematische Gesetzessammlung des Kantons Basel-Landschaft SGS 371).
- Decree on the determination of certificate and endowment capital of Basellandschaftliche Kantonalbank of 23 June 2005, in force since September 2005 (SGS 371.1).
- Ordinance on the Cantonal Law on Kantonalbank of 14 December 2004, in force since 1 January 2005 (SGS 371.11).
- Rules on the issuance of Kantonalbank certificates of 26 October 2009, in force since 1 January 2010.

On the basis of the Cantonal Law on Kantonalbank of 24 June 2004, the Board of Directors (Bankrat) of Basellandschaftliche Kantonalbank passed several rules.

The enactments mentioned below are posted on the Internet ([blkb.ch/rechtsgrundlagen](http://blkb.ch/rechtsgrundlagen)).

- Rules of procedure and organisation of 9 December 2009, in force since 1 January 2010.
- Rules on the issuance of Kantonalbank certificates of 26 October 2009, in force since 1 January 2010.
- Rules on the Executive Committee of 31 August 2009, in force since 1 January 2010.
- Rules on the Audit and Risk Committee of 31 August 2009, in force since 1 January 2010.
- Rules on controlling of 31 August 2009, in force since 1 January 2010.
- Rules on risk control of 31 August 2009, in force since 1 January 2010.
- Rules on compliance of 31 August 2009, in force since 1 January 2010.

Purpose, legal form, and state guarantee are governed by the Cantonal Law on Kantonalbank of 24 June 2004:

#### **Art. 1 Company and Head Office**

- <sup>1</sup> The name of “Basellandschaftliche Kantonalbank” in the following called “the bank” is a bank with its head office in Liestal.
- <sup>2</sup> The bank may set up branches or establish subsidiaries or participate in other companies.

#### **Art. 2 Purpose**

- <sup>1</sup> The bank offers all the services of a universal bank.
- <sup>2</sup> The bank serves the purpose of contributing, within the framework of competition and its own financial means, to a balanced development of the canton and the region of north-western Switzerland.

#### **Art. 3 Legal Form**

The bank is an independent public law company with its own legal personality.

#### **Art. 4 State Guarantee**

- <sup>1</sup> The canton guarantees for the liabilities of the bank, in the case of the bank’s own means not being sufficient.
- <sup>2</sup> The bank compensates the canton for the state guarantee. Payment is calculated according to the risk amount and the probability of non-payment.

Details are set down in the ordinance.

Below, the terms "Regierungsrat" and "Landrat" are being used repeatedly.

- Regierungsrat is the executive body of the Canton of Basel-Landschaft, elected by the people.
- Landrat is the legislative body of the Canton of Basel-Landschaft, elected by the people.

The following notes are structured along the "Directive on Information Relating to Corporate Governance" (DCG), issued by the SIX Swiss Exchange in the version being valid on 1 July 2009. For reasons of clarity, subtitles may be combined with a relevant remark. In cases of facts not being applicable or relevant for Basellandschaftliche Kantonalbank, this will be indicated explicitly.

As of closing date of 31 December 2010, there have not been any essential changes.

## 1 STRUCTURE AND SHAREHOLDERS

### 1.1 Structure

#### 1.1.1 Description of the operational structure

Basellandschaftliche Kantonalbank restricts its market presence on the region of Basel focusing thereby on the Canton of Basel-Landschaft where it operates retail banking, credit business for private and corporate customers (mainly SME) at a total of 26 locations, and private banking at seven locations. Additional locations are being served by a mobile bank.

Bank authorities of Basellandschaftliche Kantonalbank are the Bankrat (Board of Directors) of Basellandschaftliche Kantonalbank, the chairman of the Board of Directors, the Bankrat committees "Executive Committee" and "Audit and Risk Committee" and the Executive Board. Responsibilities and competencies of the different bodies are detailed below, in item 3 (Bankrat) and item 4 (Executive Board).

#### 1.1.2 Listing

Company: Basellandschaftliche Kantonalbank (BLKB)

Registered office: Liestal

Listed in: Zurich, SIX

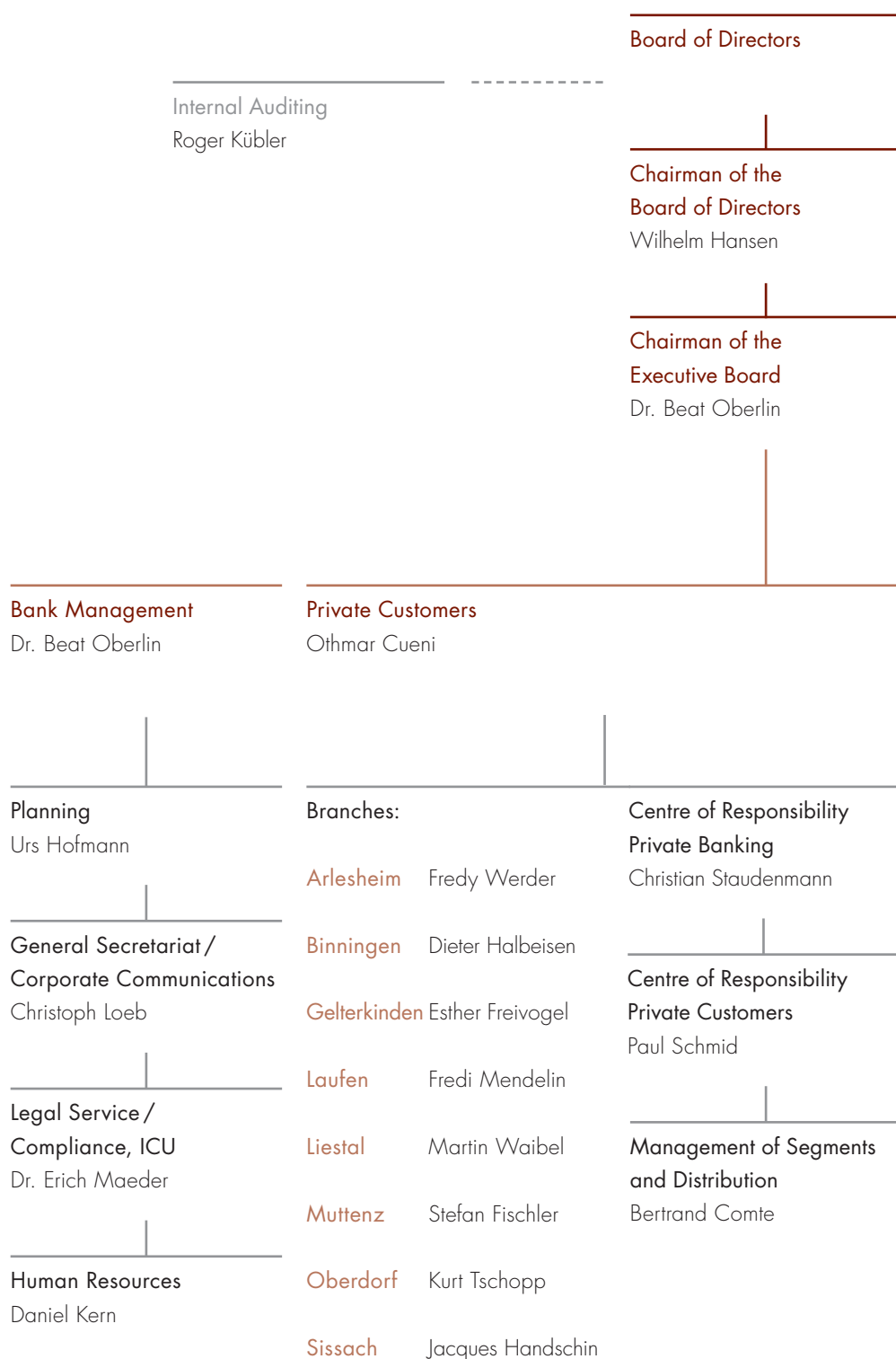
Market capitalisation:

- Market capitalisation of Kantonalbank certificates (570,000 at a nominal value of CHF 100) at year-end rate of CHF 1,280: CHF 729.6 m.
- Market capitalisation of endowment capital of CHF 160 m assuming an analogous valuation: CHF 2,048 m.
- Total market capitalisation (Kantonalbank certificates and endowment capital): CHF 2,777.6 m.

Percentage of shares of group companies: none

Securities identification number: 147.3559

ISIN number: CH0001473559



External Auditing  
Ernst&Young Ltd

**Corporate Customers**

Daniel Brändlin

**Market Services**

Jean-Daniel  
Neuenschwander

**Corporate Services**

Kaspar Schweizer

**Finance and Risk Office**

Herbert Kumbartzki

**Centre of Responsibility**

**Corporate Customers**

Roman Hügli

**Product Management**

Manuel Kunzelmann

**IT/Platform Management/  
Projects**

Beat Gass

**Controlling**

Thomas Börlin

**Credit Management**

Thomas Oehler

**Portfolio Management**

**Private Clients**

Mike Billich

**Handling Centre  
Financial Products**

Roland Hofstetter

**Financial Accounting**

Michael Obrecht

**Key Account Management**

Lukas Fiechter

**Institutional**

**Asset Management**

Rolf Rudin

**Service Centre**

Chantal Schmidt

**Risk Office**

Michel Degen

**Central Loan Processing**

Markus Berger

**Trade**

Jörg Salzmann

**IT Security**

Jörg Seeholzer

**Corporate Pension Advice**

Daniel Brändlin

**Financial Planning**

Martin Voléry

**Central Services/Security**

Felix Chrétien

**Real Estate/Buildings**

Kurt Heiniger

### 1.2 Significant shareholders

Due to its legal form, BLKB has non-voting share capital only, and consequently shareholders have no voting rights. All voting rights are exclusively held by the Canton of Basel-Landschaft.

### 1.3 Cross-shareholdings

There are no cross-shareholdings.

## 2 CAPITAL STRUCTURE

### 2.1 Capital

The original capital of the bank consists of the endowment capital of the canton and the certificate capital (the term "certificate" corresponds to participation certificate and the term "certificate capital" to non-voting share capital in other companies). According to article 5, section 2 of the Cantonal Law on Kantonbank, the Landrat is responsible for changes of the endowment capital, whereas responsibility for the issuance of certificates, according to section 3 of the said law, lies with the bank. The endowment capital of the canton is CHF 160 m. The certificate capital is CHF 57 m and is broken down into 570,000 bearer certificates of CHF 100 nominal value, each. Free float is 100%.

According to article 5, section 3 of the Cantonal Law on Kantonbank, certificate capital must not exceed 50% of the endowment capital.

### 2.2 Conditional and authorised capital in particular

The legislative body (Landrat) may create authorised capital upon request by the executive body (Regierungsrat). Within this framework, Bankrat may raise the certificate capital and Regierungsrat may raise the endowment capital. As per 31 December 2010, there is neither conditional nor authorised capital.

### 2.3 Changes in capital

In the year 2008, the certificate capital of CHF 80 m was reduced to CHF 57 m.

### 2.4 Shares and participation certificates

The certificate capital amounts to CHF 57 m and is broken down into 570,000 bearer certificates of CHF 100 nominal value (see item 2.1 above).

Certificates entitle the holder to dividend payments, subscription rights and a proportional share of potential liquidation proceeds.

Certificates do not entitle the holder to exercise any participation rights such as the right to vote, object or challenge. The Board of Directors and the Executive Board may invite bearers of certificates to meetings in order to inform them of the course of the bank's business. These meetings are purely informative; resolutions cannot be passed (Cantonal Law on Kantonbank art. 5, section 3; rules on the issuance of Kantonbank certificates, arts. 8 and 9); ([blkb.ch/rechtsgrundlagen](http://blkb.ch/rechtsgrundlagen)).

### 2.5 Dividend-right certificates

There are no dividend-right certificates.

### 2.6 Limitations on transferability and nominee registrations

There is non-voting share capital only (see item 2.4); consequently nominee registrations are not possible. There are no limitations as to transferability of certificates. Due to this particular legal form, the following rules of DCG are not applicable:

**2.6.1** Limitations on transferability for each share category, along with an indication of statutory group clauses, if any, and on rules for granting exceptions

**2.6.2** Reasons for granting exceptions in the year under review

**2.6.3** Admissibility of nominee registrations along with an indication of percent clauses, if any, and registration conditions

**2.6.4** Procedure and conditions for cancelling statutory privileges and limitations on transferability

## **2.7 Convertible bonds and options**

There are no outstanding convertible bonds and options.

## **3 BANKRAT (BOARD OF DIRECTORS)**

The Cantonal Law on Kantonalbank (blkb.ch/rechtsgrundlagen) uses the term "Bankrat". The following explanations on item 3 "Board of Directors" refer to the Bankrat of Basellandschaftliche Kantonalbank.

**3.1** and **3.2** combine: education and professional career (3.1), as well as other activities and vested interests (3.2). All members of Bankrat are Swiss citizens. All members of Bankrat are non-executive; they do not exercise any operational management tasks for BLKB. No member of Bankrat is employed by BLKB for advisory or other services.

In line with the FINMA circular 2008 / 24 "Supervision and internal control", at least one third of the Bankrat should consist of members meeting the requirements of independence as stated by margin no. 20 ff. FINMA circular 2008 / 24. With the exception of Adrian Ballmer, who as a member of the Regierungsrat of the Canton of Basel-Landschaft, does not meet the criteria (margin no. 25 f. FINMA circular 2008 / 24), all other members of Bankrat are considered independent in accordance with the principles of the said circular.

The following overview of Bankrat members also contains information on first election and the remaining term of office which is also listed in a table in item 3.4.2.



Daniel Schenk, Adrian Ballmer, Doris Greiner, Paul Hug, Claude Janiak

**01** Wilhelm Hansen. Born in 1953. Chairman of the Board of Directors (Bankrat) and chairman of the Executive Committee. First election: 2007; current term of office: 1-7-2007 to 30-6-2011. Lic. rer .pol. (university degree in economics), independent management consultant. Board member of: Scobag AG, Basel; TARENO AG, Basel; Mobimo Holding AG, Lucerne; chairman of DOMS-foundation, Basel.

**02** Adrian Ballmer. Born in 1947. Vice-chairman of the Board of Directors. First election: 1995; current term of office: 1-7-2007 to 30-6-2011. Lic. jur. (university degree in law), lawyer. 1978 to 2000 member of the executive board of Elektra Birseck (EBM), Münchenstein; member of Regierungsrat of the Canton of Basel-Landschaft since 1-7-2000, head

of the cantonal department of Finance and Churches. Board membership of: Basellandschaftliche Gebäudeversicherung (house insurance, chm), Basellandschaftliche Pensionskasse (pension fund, chm of the board of directors on behalf of employers), Sozialversicherungsanstalt BL (social insurance, chm of the supervisory commission); member of board panels of: Euro-Airport Basel-Mulhouse-Freiburg; Kraftwerk Birsfelden AG (power station), Vereinigte Schweizerische Rheinsalinen (Swiss salt-works, member of the board committee).

**03** Claude Janiak. Born in 1948. Deputy chairman of the Executive Committee. First election: 1991; current term of office: 1-7-2007 to 30-6-2011. Dr. jur. (doctorate in law), notary, independent lawyer since 1978 (advocates' office



Wilhelm Hansen, Elisabeth Schirmer-Mosset, Urs Baumann, Dieter Völlmin, Hans Ulrich Schudel

Janiak, Freivogel, Schweighauser, von Wartburg, Aeschlimann, Binningen). Board member of: Peter Rechsteiner AG, Pratteln; St. Claraspital AG, Basel. Member of the National Council. Business connections with BLKB.

**04** Paul Hug. Born in 1946. Member of the Executive Committee. First election: 1987; current term of office: 1-7-2007 to 30-6-2011. Training on several levels of building and construction; Eidg. Dipl. Baumeister (master builder with a federal diploma). CEO of Verband der Bauunternehmer der Region Basel (association of building contractors) since 1986. Secretary of Paritätische Berufskommission Bauhauptgewerbe der Region Basel (organisation to improve training, work conditions and chances in the building industry of the region). Business connections with BLKB.

**05** Hans Ulrich Schudel. Born in 1951. Member of the Executive Committee. First election: 1998; current term of office: 1-7-2007 to 30-6-2011. Lic. jur. (university degree in law); lawyer and mediator of the Swiss Bar Association; independent lawyer since 1981, offices in Basel and Bottmingen. Chairman of the school board, Bottmingen; board member of: Pico Vorsorge AG; Assubera AG; chairman of Stiftungsrat der Stiftung Volkshochschule und Senioren-Universität beider Basel; member of the Swiss Foundation for Solidarity in Tourism. Business connections with BLKB.

**06** Elisabeth Schirmer-Mosset. Born in 1958. Member of the Executive Committee. First election: 2000; current term of office: 1-7-2007 to 30-6-2011. Lic. rer. pol. (university degree in economics), co-owner of Ronda AG, Lausen; member of the

board of directors and the management board. Business connections with BLKB.

**07** Daniel Schenk. Born in 1952. Chairman of the Audit and Risk Committee. First election: 2000; current term of office: 1-7-2007 to 30-6-2011. Lic. rer. pol. (university degree in economics), executive positions in international industrial group. Owner and CEO of van Baerle AG, Münchenstein, since 1997. Board member of: Van Baerle AG, Münchenstein; Sichem Holding AG, Zug; Häring & Cie. AG, Pratteln; Elektra Birseck (EBM), Münchenstein; EBM Trirhena AG, Münchenstein. Board member of Handelskammer beider Basel (Chamber of Commerce). Business connections with BLKB.

**08** Doris Greiner. Born in 1977. Member of the Audit and Risk Committee. First election: 2002; current term of office: 1-7-2007 to 30-6-2011. Lic. phil. (university degree in psychology, subsidiary subjects: economics/business administration and state/private law). BA in Business and Economics.

**09** Urs Baumann. Born in 1949. Deputy chairman of the Audit and Risk Committee. First election: 2003; current term of office: 1-7-2007 to 30-6-2011. BSc in business management. Board member of: Autogesellschaft Sissach-Eptingen AG, Eptingen (chm); BG Treuhand AG, Basel (chm); CB IT Consulting AG, Pratteln; Dixendris AG, Basel; cBcon Services, Pratteln; Glas Felber AG, Oberwil (chm); AXIS Consulting AG, Reinach (single bm); Hasbo AG, Therwil (chm); Hasler Fenster AG, Therwil (chm); Heime auf Berg AG, Seltisberg (chm); Itamcar Immobilien AG, Oberwil; JCK-Holding AG, Oberwil (chm); Möbel Rösch AG, Basel; Neonwidmer AG Werbeanlagen, Aesch; Neonwidmer AG Immobilien, Aesch; Recchiuto Gipsler AG, Basel (chm); Ringo Türen AG, Aesch (chm); Schneider

Gartengestaltung AG, Oberwil (chm); Swiss Planning Group, AG, Basel (vchm); Urs Baumann & Partner AG (single board member), Reinach. Additional positions: Basler Hypothekar-Bürgschaftsgenossenschaft in Liquidation, Basel, liquidator. CEO and partner of: Kewill CSF GmbH, Bad Homburg v.d.H. (D), head of Pratteln branch; Alenco GmbH, Reinach; Bodima GmbH, Therwil; Take One GmbH, Reinach. CEO of: Lockwood Europe Elektronische GmbH, Reinach; Turner & Townsend Schweiz GmbH, Reinach. Delegate of Milchhändlerverband Basel-Stadt und Baselland (association of dairy trade), Basel. Verein Basler Lehrlingsheim, Basel (vchm). Aussenstelle Nordwestschweiz der BG Mitte, Bürgschaftsgenossenschaft für KMU, Burgdorf. Member of Landrat (until 30-6-2003), member of Gemeinderat (municipal council) Reinach (until 30-6-2004). Business connections with BLKB.

**10** Dieter Völlmin. Born 1956. Member of the Audit and Risk Committee. First election: 2007; current term of office: 1-7-2007 to 30-6-2011. Dr. iur. (doctorate in law), lawyer. Independent lawyer in Muttenz since 1988. Board member of: Autobus AG, Liestal; bemag Objekteinrichtungen AG, Zunzgen; Bernold AG, Amsteg; Herrenknecht Schweiz Holding AG, Altdorf; Herrenknecht Schweiz AG, Amsteg. Chairman of the cantonal taxation commission. Business connections with BLKB.

### 3.4 Elections and terms of office

#### 3.4.1 Principles of election procedures

The Cantonal Law on Kantonalkbank stipulates the following on the election of the members of Bankrat:

### Art. 10 Bankrat (Board of Directors)

“The Bankrat consists of nine to eleven members. One member of the Regierungsrat is also part of the Bankrat. All members of the Board of Directors are elected by the Landrat upon proposal by the Regierungsrat. The Landrat is bound to the election proposals”. Furthermore, the law stipulates material criteria for the election of Bankrat which were detailed by the executive body in the ordinance on the Cantonal law on Kantonalbank (blkb.ch/rechtsgrundlagen). The Board of Directors is self-constituting. Membership ends at age 70. The current term of office for all members of the Bankrat started on 1 July 2007 and will end on 30 June 2011.

#### 3.4.2 First election and remaining term of office of each member (see item 3.1 / 3.2)

	First election	Current term of office ends on
Wilhelm Hansen *, chairman	2007	30-6-2011
Adrian Ballmer, vice-chairman	1995	30-6-2011
Claude Janiak *	1991	30-6-2011
Paul Hug *	1987	30-6-2011
Hans Ulrich Schudel *	1998	30-6-2011
Elisabeth Schirmer-Mosset *	2000	30-6-2011
Daniel Schenk **	2000	30-6-2011
Doris Greiner **	2002	30-6-2011
Urs Baumann **	2003	30-6-2011
Dieter Völlmin **	2007	30-6-2011

\* Member of the Executive Committee \*\* Member of the Audit and Risk Committee

### 3.5 Internal organisation

#### 3.5.1 Allocation of tasks within the Board of Directors (Bankrat)

Chairman: Wilhelm Hansen

Vice-chairman: Adrian Ballmer

#### 3.5.2 Members list of Bankrat committees, tasks and areas of responsibility

Members of the Executive Committee are: Wilhelm Hansen (chairman), Claude Janiak (deputy chairman), Paul Hug, Elisabeth Schirmer-Mosset, Hans Ulrich Schudel. Organisation, responsibility and tasks of the Executive Committee are detailed in the rules on the Executive Committee.

Members of the Executive Committee possess the knowledge and experience necessary for the fulfilment of their duties. Knowledge and experience preferably extend to the areas of leadership, strategy, corporate development, and the capability to defend an opinion in a knowledgeable and sustainable way, even against the current opinion of the Executive Board or any other operational authority. Members of the Executive Committee keep up, in theory and practice, with the development of the bank environment, and personnel and pension fund matters. Once a year at least, the Executive Committee checks if its composition, organisation, and working methods still comply with regulatory requirements, if they meet the internal guidelines, and if they follow their own objectives.

The Executive Committee examines the developments in the banking environment on a regular basis and critically assesses business policy and strategic alignment of the bank. The committee formulates proposals for the attention of Bankrat concerning the normative disposition of the bank. In cooperation with the Audit and Risk Committee it analyses annual or multiyear

planning, budgeting, reporting on the course of affairs as well as the economic and financial situation of the bank.

The Executive Committee prepares the requests made by the Executive Board to Bankrat and formulates a recommendation, for example in the assessment of cooperations and alliances, the evaluation of acquisitions and participations, activities in new fields of business, expansion into new market areas and the choice of the IT platform. Moreover, the Executive Committee assesses the general guidelines on the bank's personnel policy.

The Executive Committee does not take any operational decisions with the exception of loans and exposures to members of the bank's governing bodies and lending activities relevant to the bank's reputation. The rules on the Executive Committee are posted on the Internet ([blkb.ch/executive-committee](http://blkb.ch/executive-committee)).

#### Audit and Risk Committee (ARC)

The members of the Audit and Risk Committee are Daniel Schenk (chairman), Urs Baumann (deputy chairman), Doris Greiner, and Dieter Völlmin.

Similarly to the Executive Committee, the members of the Audit and Risk Committee possess the required knowledge and experience whereby Bankrat specifically expects expertise in finance and accounting, knowledge of internal and external auditing and the basic principles of internal controlling. Members of the Audit and Risk Committee, therefore, regularly take part in trainings in order to keep up in theory and practice with the latest requirements of accounting and financial reporting.

The Audit and Risk Committee, among other things, evaluates the efficacy of the auditing company, the internal auditing, and

the bank's internal control. It monitors and assesses the bank's financial statement and risks. It regularly evaluates the adequacy of implementation of the regulatory framework with respect to the complexity of the bank and its risk profile. If necessary, it sees to the implementation of relevant measures. The Audit and Risk Committee decides whether acceptance of the annual financial statements is to be recommended to the Bankrat.

The rules on the Audit and Risk Committee are posted on the Internet ([blkb.ch/audit-risk-committee](http://blkb.ch/audit-risk-committee)).

#### 3.5.3 Work methods of the Board of Directors and its committees

The Bankrat (Board of Directors) is the governing and controlling body of the bank. It convenes upon invitation by the chairman of the Board of Directors as often as required by the course of business. Bankrat meetings may be requested by three members of the Bankrat, by the Executive Board or the auditors. In the year under review, the Board of Directors held seven meetings and a two-day workshop.

Bankrat meetings are usually attended by the Executive Board upon invitation by the chairman of the Board of Directors. Meetings dealing with the balance of accounts and the report of the external auditing are always attended by the head of the internal auditing and a representative of the external auditors. For specific topics, further internal and external experts are invited to the meetings.

In general, the Board of Directors (Bankrat) makes its decisions on the basis of a written presentment prepared and preliminarily discussed either by the Executive Board and/or by the Executive Committee or the Audit and Risk Committee.

The Bankrat constitutes a quorum, if at least two thirds of the members are present. Votes are decided by a simple majority. The chairperson has a casting vote which decides the issue in the event of a tied vote. Election is usually not secret; in the first ballot the absolute majority decides, in the second ballot a relative majority is required, in a tied vote lots are drawn.

In the reporting year, the Executive Committee held ten meetings, the Audit and Risk Committee eight. Rules stipulate a minimum of one quarterly meeting for both committees.

Valid decisions require the presence of a majority of members. Votes are decided by a simple majority. The chairperson has a casting vote which decides the issue in the event of a tied vote. Both committees may invite members of the Executive Board, the head of internal auditing, the head of Legal Service/Compliance or, with the consent of the chairman of the Board of Directors, external specialists to their meetings. Reporting relations are defined, so is interaction of both committees with each other, with Bankrat, the Executive Board, and further panels. The relevant rules are posted on the Internet ([blkb.ch/rechtsgrundlagen](http://blkb.ch/rechtsgrundlagen)).

### 3.6 Definition of areas of responsibility

Responsibilities of the individual panels and their interactions are regulated in detail in the regulation framework mentioned earlier ([blkb.ch/rechtsgrundlagen](http://blkb.ch/rechtsgrundlagen)).

### 3.7 Information and control instruments vis-à-vis the Executive Board

Internal auditing: internal auditing acts independently of the Executive Board and follows the instructions of the chairman of the Board of Directors (Bankrat). The head of internal auditing

is answerable to the chairman of Bankrat and reports to him directly. Internal auditing is conducted in accordance with recognised auditing standards; the head of internal auditing and his/her collaborators are qualified auditors. Auditing reports and management letters are discussed in detail by the Audit and Risk Committee.

Calls by Bankrat delegations: every year, on behalf of the chairman of the Board of Directors, internal auditing sets up a schedule for calls on the branches and the central departments. Accordingly, calls follow this schedule involving two members of the Bankrat. The findings of these calls are put down in reports and forwarded for the attention of the Bankrat.

Reporting: the Executive Board regularly informs the Board of Directors of the course of business, the income situation, risk exposure, and the advancement of projects with respect to strategy and yearly planning. A monthly report by the Executive Board with the financial results (monthly balance and monthly income statement with comparisons of the previous year and the budget) is forwarded to the Board of Directors. A comprehensive report evaluating all the relevant risks for the bank is submitted to the Bankrat on a biannual basis.

External auditing: the representative of the auditors attends Bankrat meetings dealing with the annual financial statements, the annual report and the auditing report. S/he is also present at the yearly meeting with the Financial Commission of the executive body dealing with the financial statement. The auditor communicates regularly with the chairman of the Board of Directors, the internal auditing, and the Chief Risk Officer (CRO). External auditing takes note of the reporting of the internal auditing and, if necessary, comments on it.



Othmar Cueni, Daniel Brändlin, Kaspar Schweizer

#### 4 EXECUTIVE BOARD

**4.1** and **4.2** combine: education and professional career (4.1) other activities and vested interests (4.2). The Executive Board of Basellandschaftliche Kantonalbank consists of six members. They are all Swiss citizens.

**01** **Beat Oberlin.** Born in 1955. Chairman of the Executive Board since 1 January 2005. Dr. jur. (doctorate in law), counsel and notary (Canton of Solothurn). Management training at Stanford University, USA. More than 20 years of banking experience with UBS as head of Retail and head of Corporate Customers of the region of Basel, chief of staff and head of Market and Distribution Management Business Banking Switzerland, board member of leasing and factoring

companies. Board member of: Erfindungs-Verwertungs AG (EVA), Basel; Sourcag AG, Münchenstein, (v-chm); board member of Handelskammer beider Basel (Chamber of Commerce).

**02** **Daniel Brändlin.** Born in 1961. Member of the Executive Board; head of Corporate Customers since 2010. Lic.rer. pol. (university degree in economics); two years as head of finance and deputy CEO of the Congrex group. Eight years as deputy CEO of ALLDOS international AG, Reinach (BL). Ten years in the corporate customers business of UBS with positions in Basel, Zurich, and Sydney. Board member of Job Factory AG, Basel.



Jean-Daniel Neuenschwander, Herbert Kumbartzki, Beat Oberlin

**03** Othmar Cueni. Born 1952. Member of the Executive Board; head of Private Customers since 2008. Training in commerce, federal diploma in PR; training in HR, banking; Advanced Management Program of SKU; London Business School and Harvard Business School; assignments in London and the US. 35 years of experience with Credit Suisse in Geneva, Basel, Berne, and Zurich, in positions such as head of advertising and PR, head of HR, head of Retail Banking&Branches of the area of Basel; head of Sales Support, Berne; head of overall bank projects, Zurich; head of Private Customers northwestern Switzerland; head of Private Banking Institute&Region Switzerland CS Business School, Zurich (managing director).

**04** Herbert Kumbartzki. Born in 1962. Member of the Executive Board; head of Finance and Risk Office since 2010. Studies of theology and philosophy (lic.theol.), Basel; studies of economy (lic.rer.pol.), Basel; financial analyst CFA; Executive Master in HR management FHNW (University of Applied Sciences Northwestern Switzerland) Olten; head of HR and Chief Investment Officer with Bank Etinger (UBS), financial analyst and portfolio manager UBS. Board member of ZW Hydraulik AG, Rümliigen.

**05** Jean-Daniel Neuenschwander. Born in 1962. Member of the Executive Board; head of Market Services since 2007. In 1995, Swiss Banking School Diploma, Trust und Investment Banking; 1998 Federal Diploma in financial analysis and asset

management, CEFA; head of Portfolio Management Switzerland with UBS in Basel; CIO with Bank Ehinger und Cie AG, Basel; head of Private Banking Bank Cial (Schweiz), Basel. Entry into BLKB as chief of staff, 1 January 2005. Board member of: Basellandschaftliche Pensionskasse (BLPK), Liestal; Zum Löwenzorn AG, Basel.

**06** Kaspar Schweizer. Born in 1964. Member of the Executive Board; head of Corporate Services since 2001. Lic.oec. (university degree from HSG); Executive Master of Business Administration in Business Engineering (E MBA in BE HSG). Joined BLKB in 1992: assistant to the senior management; head of IT project "Migration" (changeover of bank IT to RTC); head of Strategy, Planning, Bank Logistics.

#### **4.3 Management contracts**

Members of the Executive Board do not have any permanent managing or advising functions. There are no management contracts.

## 5 COMPENSATION, SHAREHOLDINGS, AND LOANS

### 5.1 Remuneration report: introduction and basic rules

The remuneration report summarises different aspects of compensation by Basellandschaftliche Kantonalbank in the business year 2010.

The rules valid for BLKB comply with the relevant legal and regulatory provisions as well as with the Swiss Code of Best Practice.

Details of the structuring and the mode of application of remunerations are set down in the rules and procedures on remuneration systems which the Board of Directors approved on 23 June 2010.

### 5.2 Features of the remuneration system

Remuneration of the Board of Directors (Bankrat), the Executive Board, and all employees consists of a fixed compensation with reference to the person's responsibility and a variable compensation differentiated by the overall result, the level of responsibility, and the individual performance.

The variable compensation has been determined according to an established system which has remained unchanged since 2001. The variable compensation is based on the gross profit adjusted for special items. A portion of 6.5% of the adjusted gross profit is deducted as variable remuneration and funnelled into a pool. Once a year, the Executive Committee distributes the pool to the Board of Directors and the employees according to the recipients' level of responsibility. Variable remuneration is only paid if the bank shows an adjusted gross profit.

### 5.3 Bankrat

Within the remuneration programme, members of the Board of Directors acquire KB certificates at a reduced price. The purchase consists of an optional and a compulsory part. All certificates are restricted for five years starting from the date of acquisition. The purchase is done at a 30% reduction on the price ex-dividend. Members of the Bankrat are not paid any meeting allowance. Membership in the Bankrat does not automatically entail membership in the bank's pension fund. Neither severance packages nor benefits in kind are paid.

### 5.4 Executive Board

Within the remuneration programme, members of the Executive Board acquire KB certificates at a reduced price. The purchase consists of an optional and a compulsory part. All certificates are restricted for five years starting from the date of acquisition. The purchase is done at a 30% reduction on the price ex-dividend. Neither severance packages nor benefits in kind (such as REKA cheques, lunch allowance, company cars) are paid.

### 5.5 Other employees

Within the remuneration programme, employees may acquire KB certificates at a reduced price. Senior executives have to accept a certain amount of certificates as part of their pay. All certificates are restricted for five years starting from the date of acquisition. The purchase is done at a 30% reduction on the price ex-dividend. Neither severance packages nor benefits in kind (such as REKA cheques, lunch allowance) are paid.

### 5.6 Overview of remuneration of Bankrat and employees

Details of compensation, ownership of KB certificates, and loans to members of the Board of Directors and the Executive Board of BLKB are listed in the financial report, page 63 and posted on the Internet ([blkb.ch/geschaeftsbericht](http://blkb.ch/geschaeftsbericht)).

## 6 SHAREHOLDER PARTICIPATION

Due to its legal form, BLKB has non-voting share capital only, and consequently shareholders have no voting rights. All voting rights are exclusively held by the Canton of Basel-Landschaft. The Bankrat and the Executive Board may invite bearers of certificates to meetings and inform them of the bank's course of affairs. These meetings are purely informative; resolutions cannot be passed. Certificates do not entitle their holders to any participation rights such as the right to vote, object or challenge (Cantonal Law on Kantonalbank, Art. 3 section 3, and rules on the issuance of Kantonalbank certificates, Arts. 8 and 9 ([blkb.ch/rechtsgrundlagen](http://blkb.ch/rechtsgrundlagen))).

Items 6.1–6.5 of DCG (voting right restrictions, statutory quorums, convocation of the general meeting, rules on the agenda, and inscriptions into the share register) are not applicable due to BLKB's legal form.

BLKB makes use of the possibility of holding an informative meeting. Notice is given by mail to the addresses of those shareholders known to the bank. Additionally, the invitation is published in the official gazettes and the regional daily papers.

## 7 CHANGE OF CONTROL AND DEFENCE MEASURES

Due to the legal form of BLKB (see explanations item 6) a change of ownership by means of buying certificates may not take place under any circumstances whatsoever. The question of duty to make an offer and the clauses on change of control (item 7.1 and 7.2 DCG) are therefore not applicable.

## 8 AUDITING BODY

### 8.1 Duration of the mandate and term of office of the lead auditor

The Board of Directors (Bankrat) files an application for the auditor who is then set in by the Regierungsrat. The auditing is performed by Ernst&Young.

#### 8.1.1 Date of assumption of the existing auditing mandate

– Ernst&Young: assumption of mandate in 1997.

#### 8.1.2 Assumption of mandate of the lead auditor responsible for the existing auditing

The lead auditor of Ernst&Young who is responsible for the existing auditing mandate took up office in 2004 and in this function performed the auditing of the annual accounts of 2004 for the first time.

### 8.2 Auditing fees

The total auditing fee charged in the year under review by the auditors for the fulfilment of their legally required duties was CHF 467,009. Calculation of the above-mentioned auditing expenses was done according to the principle of accrual.

### 8.3 Additional fees

Fees for additional duties ordered by the bank (change of IT platform, QI) amounted to CHF 188,692 in the year under

review. Calculation of the above-mentioned auditing expenses was done according to the principle of accrual.

### 8.4 Informational instruments pertaining to an external audit

One of the tasks of the Audit and Risk Committee is to assess the efficiency of the external and internal auditors, and the internal controls. The ARC discusses the reports and planning documentation in several meetings with the lead auditor of the external auditors and regularly informs the Board of Directors (Bankrat) of their findings. Once a year, the lead auditor meets the complete Board of Directors. In the course of this meeting, the Bankrat evaluates the auditing and supervising reports and receives information on their most relevant findings.

The ARC regularly assesses the risk-oriented auditing strategy and the relevant auditing plan of the external auditors, analyses the auditing reports and makes sure that shortcomings are rectified and the auditors' recommendations implemented. The ARC discusses the results of its analyses with the lead auditor.

With the help of systematised tools, the ARC assesses the performance and remuneration of the auditors, asserts itself of their independence, and evaluates the combined actions of the auditing company and the internal auditors.

## 9 INFORMATION POLICY

Basellandschaftliche Kantonalbank pursues a policy of communication based on the truthful presentation of facts and the openness towards questions put forward by relevant groups of persons, within or without the company, having reason to do so. The head of Corporate Communications is directly answerable to the chairman of the Executive Board.

Basellandschaftliche Kantonalbank publishes the annual results at the media conference on balances in February/March. At the beginning of the second term, the mid-year results are made public.

The annual report in German is available in printed form and online. An English translation of the financial section and selected parts of the report section is posted on the Internet ([blkb.ch/geschaeftsbericht](http://blkb.ch/geschaeftsbericht)).

Since 2005, the sustainability report has been integrated into the annual report. In this way, the Board of Directors and the Executive Board want to emphasise that sustainable actions are firmly anchored in BLKB's corporate strategy and philosophy.

Further press releases concern the yearly meeting of bearers of BLKB certificates (April). Ad hoc releases follow according to relevance and need. The complete press releases are available on the Internet ([blkb.ch/medien](http://blkb.ch/medien)).

It is part of BLKB's information policy to communicate information to the employees before, or at least at the same time as to relevant external groups of interest. Our Intranet platform "blkb.Piazza" is regularly and consistently used for that purpose.

### Contact for investor relations:

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### Investor information:

[blkb.ch/investor-relations](http://blkb.ch/investor-relations)

### Media information:

Latest news: [blkb.ch/medien](http://blkb.ch/medien)

# Balance sheet on 31 December 2010 (before profit appropriation)

## Assets

	31-12-2010 CHF 1,000	31-12-2009 CHF 1,000	Change CHF 1,000	Change %
Liquid funds	114,045	185,318	-71,273	-38.46
Money market instruments	12,001	12,361	-360	-2.91
Due from banks	369,804	859,697	-489,893	-56.98
Due from customers	982,921	710,748	272,173	38.29
Mortgage loans	13,696,590	13,226,591	469,999	3.55
Securities and precious metal trading portfolios	4,342	3,054	1,288	42.17
Financial investments	1,563,651	1,852,374	-288,723	-15.59
Participations	18,461	18,380	81	0.44
Tangible fixed assets	167,660	163,910	3,749	2.29
Intangible assets	28,110	14,593	13,517	92.63
Accrued income and prepaid expenses	124,030	108,441	15,589	14.38
Other assets	38,225	83,989	-45,764	-54.49
Company capital not paid	0	0	0	0.00
<b>Total assets</b>	<b>17,119,838</b>	<b>17,239,456</b>	<b>-119,617</b>	<b>-0.69</b>
Total subordinated claims	8,000	8,000	0	0.00
Total due from the Canton of Basel-Landschaft	3,900	7,500	-3,600	-48.00

## Liabilities

	31-12-2010 CHF 1000	31-12-2009 CHF 1000	Change CHF 1000	Change %
Money market instruments	94	0	94	0.00
Due to banks	168,214	472,807	-304,593	-64.42
Due to customers in savings and deposits	8,148,024	7,640,422	507,601	6.64
Due to customers, other	3,710,122	3,769,703	-59,582	-1.58
Cash bonds	445,688	753,329	-307,641	-40.84
Bonds and mortgage-backed bonds	2,546,442	2,495,440	51,001	2.04
Accrued expenses and deferred income	162,604	154,691	7,913	5.12
Other liabilities	117,131	198,629	-81,498	-41.03
Value adjustments and provisions	278,770	302,769	-23,999	-7.93
Reserves for general bank risks	754,000	704,000	50,000	7.10
Company capital	217,000	217,000	0	0.00
Legal reserve	456,860	416,860	40,000	9.60
Own equity	-6,423	-6,421	-2	0.03
Revaluation reserves	0	0	0	0.00
Other reserves	1,992	1,737	254	14.65
Retained earnings brought forward	10,463	12,184	-1,721	-14.12
Annual net profit	108,859	106,305	2,554	2.40
<b>Total liabilities and equity</b>	<b>17,119,838</b>	<b>17,239,456</b>	<b>-119,618</b>	<b>-0.69</b>
Total subordinated liabilities	0	0	0	0.00
Total due to the Canton of Basel-Landschaft	555,748	570,069	-14,321	-2.51

## Off-balance-sheet transactions

Contingent liabilities	90,140	94,081	-3,941	-4.19
Irrevocable commitments	366,683	357,483	9,201	2.57
Liabilities for calls on shares and other equities	35,568	35,657	-89	-0.25
Confirmed credits	0	0	0	0.00
Derivative instruments				
Positive replacement value	22,861	55,479	-32,618	-58.79
Negative replacement value	13,304	7,859	5,445	69.28
Contract volume	6,222,312	6,164,570	57,742	0.94
Fiduciary transactions	6,746	9,984	-3,238	-32.43

# Income statement

## Income and expenses from the ordinary bank business

	2010 CHF 1000	2009 CHF 1000	Change CHF 1000	Change %
<b>Net interest income</b>	<b>271,281</b>	<b>268,291</b>	<b>2,990</b>	<b>1.11</b>
Interest and discount income	459,933	474,709	-14,776	-3.11
Interest and discount income on trading portfolio	0	0	0	0.00
Interest and discount income on financial investments	38,696	38,220	476	1.24
Interest expenses	-227,348	-244,639	17,291	-7.07
<b>Net fee and commission income</b>	<b>68,682</b>	<b>68,047</b>	<b>634</b>	<b>0.93</b>
Commission income from lending activities	2,512	2,561	-49	-1.90
Commission income from securities and investment transactions	56,139	53,289	2,850	5.35
Commission income from other services	15,915	17,856	-1,941	-10.87
Commission expenses	-5,885	-5,658	-226	4.00
<b>Net trading income</b>	<b>15,280</b>	<b>14,886</b>	<b>394</b>	<b>2.65</b>
<b>Net other income</b>	<b>6,116</b>	<b>17,523</b>	<b>-11,407</b>	<b>-65.10</b>
Income from the sale of financial investments	1,415	10,961	-9,546	-87.09
Income from participations	2,083	5,134	-3,051	-59.43
Real estate income	3,022	3,369	-347	-10.31
Other ordinary income	210	41	169	409.77
Other ordinary expenses	-614	-1,983	1,368	-69.02
<b>Net operating income</b>	<b>361,358</b>	<b>368,747</b>	<b>-7,388</b>	<b>-2.00</b>
<b>Operating expenses</b>	<b>-174,433</b>	<b>-221,471</b>	<b>47,038</b>	<b>-21.24</b>
Personnel expenses	-98,100	-155,243	57,143	-36.81
Other operating expenses	-76,333	-66,228	-10,105	15.26
<b>Gross profit</b>	<b>186,925</b>	<b>147,276</b>	<b>39,649</b>	<b>26.92</b>
<b>Annual net profit</b>				
Gross profit	186,925	147,276	39,649	26.92
Depreciation and write-offs of non-current assets	-25,540	-27,036	1,496	-5.53
Value adjustments, provisions, and losses	-2,785	-1,934	-851	44.02
<b>Interim result</b>	<b>158,600</b>	<b>118,306</b>	<b>40,294</b>	<b>34.06</b>
Extraordinary income	1,210	23,159	-21,949	-94.78
Extraordinary expenses	-50,771	-35,000	-15,771	45.06
Taxes	-180	-160	-20	12.50
<b>Annual net profit</b>	<b>108,859</b>	<b>106,305</b>	<b>2,554</b>	<b>2.40</b>
<b>Profit appropriation</b>				
Annual net profit	108,859	106,305	2,554	2.40
Retained earnings brought forward previous year	10,463	12,184	-1,721	-14.13
<b>Retained earnings</b>	<b>119,321</b>	<b>118,489</b>	<b>832</b>	<b>0.70</b>
Interest on endowment capital	-4,711	-5,716	1,006	-17.59
Dividend paid on certificate capital	-18,810	-18,810	0	0.00
Compensation for state guarantee	-3,500	-3,500	0	0.00
Payment to the Canton of Basel-Landschaft	-40,000	-40,000	0	0.00
Allocation to legal reserve	-40,000	-40,000	0	0.00
<b>Retained earnings brought forward</b>	<b>12,300</b>	<b>10,463</b>	<b>1,838</b>	<b>17.57</b>

# Statement of cash flow

	2010 Source of funds CHF 1000	2010 Use of funds CHF 1000	2009 Source of funds CHF 1000	2009 Use of funds CHF 1000
<b>Cash flow from operations (internal financing)</b>	<b>84,697</b>		<b>145,878</b>	
Annual net profit	108,859		106,305	
Depreciation and write-offs of non-current assets	25,540		27,036	
Value adjustments and provisions		23,999	40,333	
Allocation to the reserves for general bank risks	50,000		35,000	
Accrued income and prepaid expenses		15,589	3,363	
Accrued expenses and deferred income	7,913			5,842
Profit distribution previous year		68,026		60,316
Other				
<b>Cash flow from capital transactions</b>	<b>253</b>		<b>2,025</b>	
Endowment capital				
Certificate capital				
Legal reserve				
Own equity	253		2,025	
<b>Cash flow from transactions with fixed assets</b>		<b>42,887</b>	<b>23,372</b>	
Participations		81	49,110	
Tangible fixed assets		42,806		25,738
<b>Cash flow from banking operations</b>		<b>301,752</b>		<b>377,128</b>
<b>Operations with banks</b>		<b>2,662</b>	<b>314,492</b>	
Due from banks (over 90 days)	10,000		49,704	
Due to banks (over 90 days)		13,116		37,875
Money market instruments (assets)	360		302,663	
Money market instruments (liabilities)	94			
<b>Operations with clients</b>		<b>601,793</b>		<b>351,998</b>
Savings and deposits	507,601		1,047,370	
Cash bonds		307,641		236,037
Due to customers		59,582		530,401
Mortgage loans		469,999		514,749
Due from customers		272,173		118,181
<b>Operations in the capital market</b>	<b>338,437</b>			<b>350,081</b>
Bonds and mortgage-backed bonds	51,001		147,440	
Securities and precious metal trading portfolio		1,288	1,693	
Financial investments	288,723			499,214
<b>Other balance sheet items</b>		<b>35,733</b>	<b>10,459</b>	
Other assets	45,765		7,534	
Other liabilities		81,498	2,925	
<b>Changes in liquidity of funds</b>		<b>259,689</b>		<b>205,852</b>
Liquid funds		71,273	42,594	
Due from banks up to 90 days		479,893		400,105
Due to banks up to 90 days	291,477		151,659	

# Notes on the financial statement (combined individual statement)

## 1 NOTES ON BUSINESS ACTIVITIES AND NUMBER OF EMPLOYEES

### 1 General

Basellandschaftliche Kantonalbank (BLKB), incorporated in Liestal, is the leading bank in Baselland and one of the leading banks in the north-western part of Switzerland. Legitimised by cantonal law, the bank operates independently from state administration as a public law company with its own legal personality.

On 31 December 2010, the Canton of Basel-Landschaft holds approximately 74% of the capital stock, another 26% are spread in private ownership. The Canton of Basel-Landschaft holds all voting rights and, according to the law, guarantees for the bank's liabilities.

Geographically seen, the bank operates in the economic region of Basel providing an extensive range of bank services for the private sector, institutional or corporate customers, and the public sector with its 24 branches in the Canton of Basel-Landschaft, one in Breitenbach (SO), and one for Private Banking in Basel. A number of ATMs at various locations as well as a mobile bank catering for smaller communities are completing the services BLKB offers to its customers in the canton.

### 2 Retail and commercial banking

The interest balance at about 75% contributes significantly to the income statement. The assets-side business is dominated by the mortgage business with the chief segment being residential real estate. On the liabilities side, there are the customer deposits at approximately 70% of the balance sheet total.

### 3 Fee and commission business

Fee and commission business contributes approximately 19% to the net operating income. The principal source of this income originates from the investment and securities business with customers.

### 4 Trading income

Trading income sums up income from customer and proprietary trading (foreign exchange, foreign currencies, precious metals, securities) which is done to a rather limited extent.

### 5 Other income

Financial investment consists primarily of fixed-interest securities held to maintain liquidity by means of repo transactions with the Swiss National Bank and other banks. Financial investment also includes equity and other securities held by the bank for a medium- to long-term horizon.

### 6 Notes on risk management and risk control

BLKB applies an implemented risk management and an independent risk control headed by the Chief Risk Officer. December 6, 2010 was the last date when the Board of Directors (Bankrat) or its committees assessed the relevant risks for the bank in view of the likelihood of occurrence and their potential financial effects. These risks are avoided, decreased or passed on with the help of relevant measures decided on by the Bankrat. The risks that the bank has to bear itself are persistently monitored. On the basis of the last risk assessment by the Board of Directors, the present annual statement adequately covers current risks by means of value adjustments or provisions. For further details concerning risk management we refer to the explanations below.

#### Risk management and risk control

Recognising, assessing, managing, and monitoring of risks is a task of substantial importance for BLKB. Taking on risks, managing and controlling them is an integral part of any bank business. The general framework for risk policy is established by the Bankrat. Equipped with an efficient control system, the Executive Board is responsible for achieving the targets and complying with specifications. The purpose of risk management and risk control is to obtain a well-balanced proportion of risk and income.

### Risk acceptability

In its business principles, the bank takes responsibility for a business behaviour compliant with the risk strategy and thereby guarantees the acceptability of the risks. The intention is to cover potential risks, lying within an ordinary range of expectation, by means of the current income. Extraordinary losses – in the framework of stress scenarios – are to be covered by the current income and free reserves.

### Principles

Principles for the management and control of risks are specified in the risk policy which stipulates a strict division of risk management and risk control. Risk management, according to BLKB's rules, means authorising individual persons (eg heads of branches) or groups of persons (eg trade) to incur risks, in line with the rules of responsibility or the rules of limits, on behalf of the bank and to manage them. The incurrance of risks requires an approved limit as well as the identification, measuring, and monitoring of risks. The introduction of a new product necessitates a preceding clarification of the risks involved.

The Risk Office is independent of risk management and is responsible for risk control. It helps to identify risks and decides on the risk-measuring method, it decides on procedures for new products and evaluation methods, and it implements quality assurance of the applied risk-measuring method.

Under the supervision of the Chief Risk Officer, all risks incurred by the bank are consolidated and commented on for the attention of the Executive Board. The Board of Directors (Bankrat) is informed of the findings in the course of the risk report as per 31 December and 30 June each year. Scenario analyses are periodically submitted to checks and are adjusted, if necessary.

### Systemic risks, strategic risks, reputational risks, and compliance risks



The highest level encloses the systemic risks of the Swiss financial market. Supervision and regulation thereof are carried out by the Swiss National Bank and the Swiss Financial Market Supervisory Authority (FINMA). The financial crisis demonstrated that in extraordinary situations the Federal Council may also be actively involved.

Strategic risks may result from the overall bank strategy and come under the responsibility of the senior bank management. The reputational risk means the danger of damage to the bank's reputation. Managing of reputational risks consists mainly of assuring competency, integrity, and reliability of all the business activities of the entire bank, as this risk may easily arise from the bank's business and operating activities. It is a very complex task comprising a whole range of operational and strategic guiding instruments on the side of the bank. At BLKB, strategic risks and reputational risks are qualitatively controlled. Compliance risks may result from a breach of rules, standard, or codes of conduct and may lead to regulatory sanctions, financial losses, and damage to the reputation. The unit Legal Services and Compliance/Internal Control assures that business activities are consistent with current regulatory specifications and the due diligence of a financial intermediary. These units are responsible for the implementation of requirements

and developments on the part of supervisory and legislative bodies or other organisations. They are also responsible for the adjustment of directives to the regulatory developments and the compliance therewith.

#### Default, market, and operational risks

The Executive Board is responsible for the operational implementation of the management and control of credit, market, and operational risks as defined by Basel II. They comprise the entirety of the capital accord for banks which was implemented in Switzerland by means of the Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO) which was enacted in the national legislation on 1-1-2007. For that purpose, the Executive Board issues detailed guidelines, directives, and instructions, with particular regard to strategy-compliant risk behaviour. It makes sure that risk acceptability is guaranteed and risk-adequate prices are assured.

In order to harmonise and simplify BLKB's implementation of risk policy, the different risks were split into three commonly used and internationally recognised risk categories:

1. Credit and default risks
2. Market, price, and liquidity risks
3. Operational and legal risks

The individual risk types will be explained below including the precautions taken by BLKB. Details are laid down in the risk policy and the relevant internal procedures. Risk management will continue to pose a challenge for the entire banking world, a point thoroughly proven by the current efforts to overcome the financial crisis.

#### 6.1 Default and credit risks

Default or credit risk is the risk of involuntary or deliberate non-compliance with an obligation a counter party has incurred with BLKB. Due to its strong lending business and the concentration of risks, particularly in home building, in the north-western part of Switzerland (a geographically restricted area), managing credit risk is top of the agenda for the risk management at BLKB. Default risks are limited by quality requirements and covering margins.

The appraisal of real estate is laid down in the relevant procedures. In the event of recapitalisation of residential mortgages exceeding CHF 5 m, or commercial mortgages exceeding CHF 3 m, appraisal is done by consulting an external qualified third party. Based on a risk-oriented scheme, recoverability of a property is reappraised periodically. The frequency of reappraisal ranges between three and twenty years and depends on the:

- type of real estate
- coverage ratio
- acceptability

As soon as a loan is assessed as doubtful or profitless, a reappraisal is done. The current market value serves as a basis for lending and is determined as follows:

- property inhabited by owner: real value
- income property: earnings value
- commercial or industrial property used by owner: current market value or use value
- building estate: market value in view of future use

The highest possible financing depends on the one hand on internally defined collateral value and on the other hand on its acceptability. Second mortgages without marketable additional cover must be amortised. Depending on the amount and complexity of the loan, decisions are made at different hierarchical levels and branches. BLKB is confident that branch managers know their customers best and are therefore in a good position to assess credit risk. Credit-worthiness and possible collateral are important factors in assessing the probability of default risk. Default risk of the bank's commercial borrowers is measured and managed periodically by means of a rating system comprising ten categories. Ratings are periodically reassessed. This system is extremely helpful in assessing the credit risk of exposures and in determining value adjustments.

Periodical meetings and continued training of the persons in charge of lending help reduce losses and ensure a consistent lending policy of BLKB.

A team of specialists at the head office takes care of exceptional cases and deals with non-performing loans. The Loan Committee, consisting of members of the Executive Board, issues relevant rules and procedures, assures a consistent lending policy, a competitive pricing policy and monitors compliance with the rules. Changes in the credit rating of counter parties as well as compliance with the regulations aimed at avoiding large risks in the case of large counter parties or customers are part of the same risk category.

Unilateral decisions by governments restricting currency transfers and payments, or moratoria of all kinds, are referred to as country risks.

BLKB, in close cooperation with Zürcher Kantonalbank (CBZ), adopts CBZ's country rating and chooses its partners abroad according to strict criteria in order to minimise country risk as much as possible.

Money market business on the basis of unsecured transactions, and over-the-counter derivatives may only be concluded with approved counter parties and within approved limits.

## 6.2 Market, price, and liquidity risks

Market risks emerge as the result of price movements in the stock, interest, foreign exchange, and commodity markets. Compliance with internal limits as well as the development of the individual markets are constantly being monitored.

### 6.2.1 Interest rate risks in the banking book

Interest rate risks are controlled by the income and price effect. The income effect measures the impact of interest rate changes on the performance of a certain period of time (eg 12 months). In this case, the interest rate changes influence those items on the balance sheet which will expire within 12 months and will be renewed or whose reset date recurs within the next twelve months. The price effect analyses changes of the cash value of equity under different assumed rate scenarios (eg parallel shift of the rate curve by 1 basis point). BLKB controls the interest rate risk primarily by means of the income effect. Calculation

of the income effect is also done in line with supervisory requirements.

Balance sheet items which grant the customer the right to give notice (eg variable rate mortgages and savings) will be simulated by benchmark portfolios, in a way that variance of the margin between customer rate and yield of the replicating portfolio is minimised taking into account the fluctuation of volumes on these balance sheet items. Historic products and market rates serve as a basis for the simulation. Replication keys determined in this way are checked for their relevance on a yearly basis. Limits for the different scenarios of income and price effect have been determined.

### 6.2.2 Market, price, and liquidity risks in the trading book

In order to assess market risks in the trading book, the value at risk is measured daily. Basel-Landschaftliche Kantonalbank calculates the degree of risk on the basis of one trading-day and a quantile of 99% by using the past 100 historic market scenarios. Value at risk indicates that, by a probability of 99%, a certain loss will not be exceeded for the duration of one trading day. A "List of Instruments" ensures that BLKB only uses products which can be correctly assessed and entered.

Market liquidity risks are generated by the failure of markets to have fair buying and selling prices for certain products at all times. Market liquidity risks are restricted by limitations of the delta equivalent per issuer.

Central Risk Controlling uses integrated systems to monitor these limits. Trading is centralised at the head office in Liestal and is operated by qualified and experienced dealers.

### 6.3 Operational and legal risks

Operational risks are defined as “dangers of direct or indirect losses resulting from inappropriateness or failure of internal processes, people and systems, or external events”. They are limited by means of internally defined rules and directions as to organisation and control. A security committee coordinates the individual areas and sets priorities. Internal auditing regularly checks internal controlling and reports the findings. The internal control unit, an internal, central body, monitors compliance with the procedures and authorises IT-access rights to the staff in order to minimise operational risks. Internal operational procedures, processes and systems are reviewed on an ongoing basis and are prioritised with respect to their importance for the operation of the bank. Follow-up and adaptation to new systems, processes, and operational procedures are thereby assured. Scope and frequency of different checks executed by superior bodies are defined in an internal-control manual. A disaster plan defines backup procedures in case of failure of individual systems or system groups.

Systemic risks (failure of IT-platform) are analysed in cooperation with the outsourcing partners Swisscom IT Services and Siemens (Schweiz) AG on an ongoing basis, and appropriate measures are in place to minimise these risks. Continued training for all employees, the transparent organisation of the bank and open communication does, however, represent the most efficient method of minimising operational risks. Legal risks include:

- Lack of authorisation or lack of competence and expertise required for concluding a contract (risk of concluding unwanted commitments).
- Conclusion of incorrect or incomplete contracts (the risk of a counter party not being able to meet its obligations, risk associated with claims for damages or negligence).

To minimise these risks, the bank uses standardised contracts and individual transaction confirmations. Moreover, certain transactions may only be carried out at the head office by authorised bodies. Mandatory procedures ensure that due care is exercised when signing contracts. Legal risks also include the possibility of changes in the regulations issued by national (FINMA, SBA, SIX etc.) or international institutions (BIS, SEC etc.).

### 6.4 Outsourcing of business areas

Basellandschaftliche Kantonalbank delegated a number of functions belonging to the business areas of securities back-office and payment transactions to Sourcag AG, Münchenstein. The operation of the computer centre and the development of bank applications were entrusted to Swisscom IT Services. Decentralised IT is tended to by Siemens (Schweiz) AG. Both outsourcing orders were regulated in detail in service level agreements as stipulated by FINMA. Confidentiality is assured by the fact that the entire staff of both providers are subject to bank secrecy.

### 7 Employees

In line with the FINMA counting method, the number of employees was established as:

	2010	2009
<b>Full-time equivalents (acc. to FINMA)</b>	629	620

Head count was established as:

	2010	2009
<b>Number of employees</b>	700	689
apprentices	28	28
trainees	10	10

## 2 ACCOUNTING PRINCIPLES

### General accounting policies

The annual financial statement is set up according to the relevant Swiss accounting principles for banks. It provides a view of the bank's asset, finance, and income situation according to the principle of "true and fair view" (combined individual statement). It meets the legal requirements laid down in the regulation of the Canton of Basel-Landschaft and complies with the accounting rules for listed companies of the Swiss stock exchange as well as with the directives of FINMA.

### Closing date

BLKB closes its financial year on 31 December.

### Reporting of transactions

All transactions (on-balance-sheet and off-balance-sheet) are recorded as of the closing date and valued according to the accounting and valuation principles.

### Foreign currencies

Foreign currency transactions are entered at the respective day's rate. Monetary assets are translated into Swiss francs at rates valid on balance sheet date and entered affecting net income. Exchange rate difference between the day of conclusion and the day of fulfilment of the transaction is entered in the income statement.

The following rates on balance sheet date are used for the currency translation:

	2010	2009
Average exchange rate EUR / CHF	1.3699	1.5081
Year-end rate EUR / CHF	1.2504	1.4831
Average exchange rate USD / CHF	1.0373	1.0839
Year-end rate USD / CHF	0.9321	1.0338

### Accounting and valuation principles

Liquid funds, deposits

Valuation is done at nominal value.

### Repurchase and reverse repurchase transactions

Reverse repurchase transactions are securities purchased under the condition of resale. Repurchase transactions are securities sold under the condition of repurchase. Reverse repurchase transactions are recorded in the balance sheet as advance against collateral, and repurchase transactions are recorded as secured payables.

Market value of obtained or supplied securities are monitored daily in order to make available or claim additional securities, if need be.

Interest income from reverse repurchase transactions and interest expenses on repurchase transactions are accrued by maturity.

### Dues from bills and money market receivables

#### Bills of exchange and cheques

Accounting is done at nominal value. Bills of exchange are accrued by a discount.

#### Money market receivables

Accounting is done at cost value.

### Dues from banks and customers, mortgage loans

Recording is done at nominal value with the exception of claims and liabilities from non-monetary values such as precious metal accounts and securities lending and borrowing which are entered at market value. Specific provisions are built for doubtful dues, which means dues from customers who have failed to meet their capital and interest liabilities for 90 days or longer. The same applies to the probability of a customer failing to meet his liabilities in full or in part in the future. Valuation adjustment is determined by the difference between the book value of the claim and the likely income, taking into account the risk of the counter party and the net income from selling off collateral. When determining net income of the collateral, cost of carry such as interest, maintenance, and sales costs etc. up to the estimated time of sale are deducted, so are potential taxes and fees.

### Securities and precious metal trading portfolios

Trading portfolios are always valued and recorded at fair value on balance sheet date. Fair value is the price determined on the basis of a price-efficient and liquid market or a price determined on the basis of a valuation model. In the exceptional case of fair value not being available, recording and valuation is done according to the principle of minimum value. Valuation income is reflected in the income statement as net trading income. Interest and dividend income is also entered as net trading income. Funding expenditure for trading of securities is debited to net trading income and credited to net interest income.

### Financial investment

Own equity and precious metals are valued according to the principle of minimum value. On purchase of fixed-interest debt securities, they are divided into two categories and valued as follows:

Held-to-maturity: valuation at cost, premiums and discounts are accrued over the remaining term of the financial investment. Capital gains, realised on premature sale of the financial investment, are accrued over the remaining term.

Available-for-sale: valuation according to the principle of minimum value. Crediting is done at lower of cost or market. Real estate and participations taken over from the credit business

and intended for sale are recorded in financial investments and valued at lower of cost or market. BLKB purchases real estate on behalf of the Canton of Basel-Landschaft and the communities in trust. Fiduciary ownership of such real estate is entered in the receivables side and fiduciary obligation in the liabilities side of the balance sheet.

### Participations

Participations are valued at acquisition cost less economically necessary depreciation.

### Tangible fixed assets

Tangible fixed assets are recorded at cost value on the basis of the estimated time of use determined in the following way.

	2010
bank buildings	30 years
other real estate	33 years
other tangible assets	3–5 years

Recoverability of tangible fixed assets is checked yearly. If there is a change in the period of use or a depreciation, an extraordinary write-off is done. Ordinary and extraordinary write-offs, if any, are recorded in item depreciation and write-offs of non-current assets of the income statement. Maintenance costs are debited to the income statement.

### Intangible assets

Purchased intangible assets are recorded, if there is a measurable benefit for the company over a period of several years. Worked-for intangible assets are not recorded. Recording is done at cost value based on the estimated time of use of the assets. Recoverability of intangible assets is checked yearly. If there is a change of use or a depreciation, an extraordinary write-off is done. Ordinary and extraordinary write-offs, if any, are recorded in item depreciation and write-offs of non-current assets of the income statement.

### Goodwill

Goodwill is written off linearly according to a carefully estimated time of use (five years maximum).

### Other intangible assets

Other intangible assets are written off over a period of three years.

### Accrued income and expenses, prepaid expenses, deferred income

Accruals are established according to the matching principle.

### Other assets and liabilities

These balance sheet items contain, among others, the positive and negative replacement values of derivative instruments, valued at market value as of balance sheet date.

### Valuation adjustments and provisions

Specific provisions and reserves are made for all risks recognisable on balance sheet date. Valuation adjustments represent gross values. Interest and commission income from customers overdue 90 days and more are adjusted. Provisions from one accounting period, which from an economic point of view are not needed any more, are liquidated and recorded in the income statement or used for new specific provisions. Historic experience has shown that specific provisions cover latent risks sufficiently. Therefore, general provisions were not made.

### Provisions for pension schemes

There is a defined benefit pension plan for the employees of BLKB and a defined contribution plan for the senior management. The economic benefit and economic costs of these pension plans are calculated periodically, following a static

method according to Swiss GAAP FER 26 (accounting of pension fund) by an independent qualified actuary. The employer's potential economic liability to the pension plan is recorded in value adjustments and provisions (see balance sheet 3.7).

### Own debt and participation securities

Positions in own debenture and cash bonds are offset with the relevant liability item. Positions in own equity are deducted from equity capital in a separate section own equity at cost value.

### Reserves for general bank risks

These reserves are added to the equity capital in line with art. 18 lit. B of the Capital Adequacy Ordinance (CAO).

### Legal reserve

Legal reserve results from the surplus from issues carried out in the parent company since the introduction of certificate capital. Dividends and income from resale of own equity are directly allocated to legal reserves.

#### Other reserves

The balance sheet item other reserves records the income of own equity in the trading portfolio.

#### Annual net profit

The annual net profit comprises BLKB's worked-for profit.

#### Taxes

BLKB, as a public law institution, is exempt from direct federal tax and cantonal tax in the Canton of Basel-Landschaft. It is, however, not exempt from taxes for branches outside the canton. Direct tax due for ongoing assessment is recorded in accrued expenses and deferred income.

According to GAAP FER 11, current and future fiscal effects are entered as provisions in the annual statement.

#### Contingent liabilities, irrevocable commitments, liabilities for calls on shares and other equity, confirmed credits and fiduciary transactions

Off-balance-sheet transactions are recorded at par value. Appropriate provisions are made for all risks recognisable.

#### Forward transactions, derivative instruments

BLKB records positive and negative replacement costs vis-à-vis the same counter party in line with concluded netting agreements.

#### Trading transactions

Valuation of all derivative instruments concluded as trading transactions are done at fair value. They are recorded as positive or negative replacement costs in other assets or other receivables. Fair value is based on market rates or calculation models. For transactions with derivative instruments concluded for trading reasons, realised and non-realised income is recorded in income from trading transactions.

#### Hedging transactions

Furthermore, the bank uses derivative instruments within the framework of asset and liability management in order to control changes of interest rate risks. Hedging transactions are valued analogously to the secured basic transactions. Income from hedging transactions is allocated to the same balance sheet item as income from secured transactions.

In order to secure changes of interest rate risks, macro-hedges are used. Income of those derivatives held for hedging and managing interest rate risks is accrued. Positive and negative replacement costs are recorded in other assets or other receivables. Accrued interest on the hedging item is recorded in the compensation account of other assets or other liabilities.

Hedge relations, aims and strategies of hedging transactions are documented by the group upon conclusion of derivative hedging transactions. Efficiency of hedge relations is checked at regular intervals. Hedging transactions where hedge relations have partly or fully become ineffective are treated as trading transactions as far as the non-effective part is concerned.

#### Changes compared to the previous year

None.

#### Events after the balance sheet date

After balance sheet date there were no extraordinary events which might have had a major influence on the asset, finance, and income situation of the bank in the past financial year.

## 3 INFORMATION ON THE BALANCE SHEET

## 3.1 Summary of collaterals

	Mortgage cover CHF 1000	Other cover CHF 1000	Without cover CHF 1000	Total CHF 1000
<b>Receivables</b>				
Due to customers				982,921
– public bodies	20,000		68,382	88,382
– others	193,754	247,126	453,659	894,539
Mortgage loans				13,696,590
– residential real estate	11,738,829			11,738,829
– office and business buildings	373,452			373,452
– trade and industry	996,148			996,148
– others	588,160			588,160
<b>Total due from customers as per 31-12-2010</b>	<b>13,910,344</b>	<b>247,126</b>	<b>522,041</b>	<b>14,679,511</b>
Previous year	13,421,916	166,396	349,026	13,937,339
<b>Off-balance-sheet</b>				
Contingent liabilities	8,526	5,334	76,280	90,140
Irrevocable commitments	234,007	6,583	126,094	366,683
Liabilities for calls on shares and other equities			35,568	35,568
Confirmed credits				0
<b>Total off-balance-sheet as per 31-12-2010</b>	<b>242,533</b>	<b>11,917</b>	<b>237,942</b>	<b>492,391</b>
Previous year	278,799	8,053	200,369	487,221

	Total debt	Estimated realisation of securities	Net debt	Specific provisions
<b>Doubtful receivables as per 31-12-2010</b>	<b>440,613</b>	<b>248,928</b>	<b>191,685</b>	<b>169,058</b>
Previous year	441,754	252,416	189,338	168,875

### 3.2 Securities and precious metal trading portfolio, financial investments and participations

#### 3.2.1 Securities and precious metal trading portfolio

			31-12-2010 CHF 1000	31-12-2009 CHF 1000
Debt securities			3,656	3,054
– listed on an exchange			3,656	3,054
– not listed			0	0
Own equity			374	0
Precious metals			313	0
<b>Total trading portfolios in securities and precious metals</b>			<b>4,343</b>	<b>3,054</b>
– of which securities eligible for repo transactions			2,395	512

#### 3.2.2 Financial investments

	Book value 31-12-2010 CHF 1000	Book value 31-12-2009 CHF 1000	Fair Value 31-12-2010 CHF 1000	Fair Value 31-12-2009 CHF 1000
Debt securities	1,438,262	1,752,063	1,467,457	1,759,175
– of which valued according to the method of accrual	1,438,262	1,752,063	1,467,020	1,758,703
– of which valued according to the lower of cost or market method	0	0	437	472
Own equity	74,913	40,630	78,915	44,908
– of which qualified participations	501	501	501	501
Precious metals	1,369	1,566	4,458	4,205
Fiduciary real estate	39,311	41,203	39,311	41,203
Real estate for sale	9,796	16,911	9,796	16,911
<b>Total financial investments</b>	<b>1,563,651</b>	<b>1,852,374</b>	<b>1,599,937</b>	<b>1,866,402</b>
– of which securities eligible for repo transactions	1,223,193	1,352,063	1,252,802	1,358,703

#### 3.2.3 Participations

			31-12-2010 Book value	31-12-2009 Book value
With quoted value			0	0
Without quoted value			18,461	18,380
<b>Total non-consolidated holdings</b>			<b>18,461</b>	<b>18,380</b>

## 3.3 Participations

	Business activities	Share capital CHF 1000	Interest share 31-12-2010 %	Interest share 31-12-2009 %	
<b>Disclosed in financial investments</b>					
	Landwirtschaftliche Trocknungsanlage, Pratteln	Drying plant	900	16.28	16.28
	AEB Alternativ-Energie AG, Birsfelden	Energy generation	3,300	12.12	12.12
	Ultra-Brag AG, Muttenz	Shipping/ warehousing/trade	3,000	11.67	11.67
<b>Disclosed in non-consolidated participations</b>					
	ATAG Asset Management (Lux), Luxembourg (in liquidation)	Financing company	1,500 *	100.00	100.00
	Sourcag AG, Münchenstein	Services for banks	3,000	20.00	20.00
	Erfindungs-Verwertungs AG, Basel	Knowledge transfer	1,112	42.67	42.67
	RTC Real-Time Center AG, Bern	Information technology	30,000	0.00	11.73
	Caleas Holding AG, Zürich	Financing company	6,000	11.19	11.19
	Pfandbriefzentrale der Schweiz. Kantonalbanken, Zürich	Bank financing	825,000	5.18	5.18
	Swisscanto Holding AG, Bern	Financial services	24,204	5.02	4.53
	Aduno Holding AG, Zürich	Credit cards	25,000	3.08	3.09
	SIX Group AG, Zürich	Financial services	19,521	0.41	0.41
	S.W.I.F.T., La Hulpe, Belgium	Bank telecommunications	10,890 *	0.02	0.02

\* EUR

## 3.4 Analysis of capital assets

	Cost value CHF 1000	Accrued write-offs CHF 1000	Book value 31-12-2009 CHF 1000	Transfers 2010 CHF 1000	Additions 2010 CHF 1000	Disposals 2010 CHF 1000	Write-offs/ depreciation 2010 CHF 1000	Book value 31-12-2010 CHF 1000
<b>Total non-consolidated participations</b>	<b>33,439</b>	<b>-15,059</b>	<b>18,380</b>	<b>0</b>	<b>3,601</b>	<b>-3,520</b>	<b>0</b>	<b>18,461</b>
– of which majority interest	0	0	0	0	0	0	0	0
– of which minority interest	33,439	-15,059	18,380	0	3,601	-3,520	0	18,461
<b>Total tangible fixed assets</b>	<b>234,928</b>	<b>-71,018</b>	<b>163,910</b>	<b>0</b>	<b>14,957</b>	<b>0</b>	<b>-11,207</b>	<b>167,660</b>
<b>Real estate</b>	<b>217,670</b>	<b>-63,042</b>	<b>154,628</b>	<b>0</b>	<b>12,682</b>	<b>0</b>	<b>-6,581</b>	<b>160,729</b>
– of which bank buildings	162,683	-53,767	108,916	0	1,093	0	-5,071	104,938
– of which other real estate	54,987	-9,275	45,712	0	11,589	0	-1,510	55,791
<b>Other tangible fixed assets</b>	<b>17,258</b>	<b>-7,976</b>	<b>9,282</b>	<b>0</b>	<b>2,275</b>	<b>0</b>	<b>-4,626</b>	<b>6,931</b>
<b>Assets arising from finance leases</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Others</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total intangible assets</b>	<b>27,034</b>	<b>-12,441</b>	<b>14,593</b>	<b>0</b>	<b>27,850</b>	<b>0</b>	<b>-14,332</b>	<b>28,110</b>
– of which goodwill	0	0	0	0	0	0	0	0
– of which remaining intangible assets	27,034	-12,441	14,593	0	27,850	0	-14,332	28,110
Fire insurance value of real estate			244,869					243,647
Fire insurance value of other tangible fixed assets			45,539					45,347
Liabilities: future commitments under operational lease agreements			0					0

## 3.5 Other assets and other liabilities

	31-12-2010 Other assets CHF 1000	31-12-2010 Other liabilities CHF 1000	31-12-2009 Other assets CHF 1000	31-12-2009 Other liabilities CHF 1000
Replacement values from derivative instruments	22,861	13,304	55,479	7,859
Principal transactions	22,861	13,304	55,479	7,859
– of which held for trading	13,903	13,304	8,327	7,859
– of which held for hedging	8,958	0	47,153	0
Agency transactions	0	0	0	0
Compensation account	0	9,387	0	47,153
Capitalised organisational costs	0	0	0	0
Interest on endowment capital	4,711	0	5,716	0
Value added tax and other taxes	2,183	19,101	2,717	15,647
Other receivables / payables	8,469	75,338	20,076	127,971
<b>Total</b>	<b>38,225</b>	<b>117,131</b>	<b>83,989</b>	<b>198,629</b>

## 3.6 Assets pledged or ceded to secure own commitments, and assets subject to retention of title

	31-12-2010 CHF 1000 Book value	31-12-2010 CHF 1000 Effective commitment	31-12-2009 CHF 1000 Book value	31-12-2009 CHF 1000 Effective commitment
Not freely available assets on balance sheet date:				
Pledged or ceded mortgage loans for mortgage-backed securities	1,561,126	1,047,000	1,629,550	996,000
Financial investments	153,344	3,479	156,988	4,580
Fiduciary real estate	39,311	39,311	41,203	41,203
<b>Total assets pledged or ceded</b>	<b>1,753,781</b>	<b>1,089,790</b>	<b>1,827,741</b>	<b>1,041,783</b>

## Loan business and repurchase agreement with securities

	31-12-2010 CHF 1000	31-12-2009 CHF 1000
Book value of claims from cash deposits in securities borrowing and reverse repurchase business	288,080	585,351
Book value of liabilities from cash deposits in securities lending and repurchase business	0	0
Book value of own securities lent in securities lending or deposited as collateral in securities borrowing or transferred in repurchase business	0	0
– of which securities with unlimited right of disposal or pledge	0	0
Fair value of securities deposited as collateral in securities lending or borrowed in securities borrowing or received in reverse repurchase business for which unlimited right of disposal or pledge has been granted	287,945	584,732
– fair value of those securities which were disposed of or pledged	0	0

### 3.7 Commitment to pension schemes

	31-12-2010 Excess cover/ Deficient cover CHF 1000	31-12-2010 Economic share of BLKB CHF 1000	1-1-2010 Economic share of BLKB CHF 1000	Changes com- pared to previous year or affecting net income in current year CHF 1000	Accrued amounts CHF 1000	2010 Pension expenses within personnel expenses CHF 1000	2009 Pension expenses within personnel expenses CHF 1000
Pension fund: defined benefit <sup>1)</sup>	28,400	103,242	107,158	-3,916	8,091	8,091	68,852
Pension fund: defined contribution <sup>2)</sup>	0	0	0	0	1,365	1,365	632
<b>Total</b>	<b>28,400</b>	<b>103,242</b>	<b>107,158</b>	<b>-3,916</b>	<b>9,456</b>	<b>9,456</b>	<b>69,484</b>

<sup>1)</sup> Employees of BLKB are insured with Basellandschaftliche Pensionskasse (BLPK, defined benefit plan). As in previous years, deficient cover of BLKB in this pension fund was identified as per 30 June of the current year. Basically, Basellandschaftliche Pensionskasse enjoys a limited state guarantee and BLKB, in case of a financial restructuring of pension liabilities, would not have to bear the burden single-handedly. Therefore, in 2008, the decision was taken to recalculate the economic costs or the required provisions in the following way: as long as coverage by the pension fund remains within a margin of 75–90%, BLKB will record a fixed provision of CHF 28.4 m in its balance sheet (which translates into roughly 2/3 of the deficient cover of Pensionskasse disclosed as per 30 June 2008). Should coverage by Pensionskasse leave the above-mentioned margin, the matter has to be evaluated again.

With deficient cover of BLPK remaining within the defined margin, adjustment of provisions was not required. However, in order to follow BLKB's sustainable business policy, Bankrat approved the financial restructuring of the bank's pension liabilities in December 2009. For this purpose, an independent insurance expert calculated full cover of all pension claims as well as a share of future reserves for value fluctuation. In 2009, on the basis of these calculations, additional provisions of CHF 60 m were made. In the course of the past business year, the Board of Directors (Bankrat) decided to convert the defined benefit plan into a defined contribution plan with the BLPK as per 1 January 2011.

The employer's contributions, the costs of Basellandschaftliche Pensionskasse for inflation adjustments of current pensions, as well as the purchase of early retirements are continuously debited to the income statement. Pension expenses consist of accrued contributions and the changes of economic liabilities recorded in provisions.

<sup>2)</sup> The provisions of CHF 60 m include the full cover of the deficient funds for the defined contribution plans for the senior management (see footnote 1). In the course of the past business year, Bankrat decided to integrate the hitherto existing pension plan for the senior management into the new, defined contribution pension scheme with BLPK. The provisions of CHF 60 m include the full cover of the deficient funds for the defined contribution plans for the senior management (see footnote 1). In the course of the past business year, Bankrat decided to integrate the hitherto existing pension plan for the senior management into the new, defined contribution pension scheme with BLPK.

### 3.8 Bonds and mortgage-backed securities

	Year of issue	Interest rate %	Due date	31-12-2010 Balance CHF 1000	31-12-2009 Balance CHF 1000
	2000	4.000	10.03.2010		300,000
	2002	4.000	27.02.2012	300,000	300,000
	2005	1.500	28.07.2010		300,000
	2007	3.000	14.12.2017	300,000	300,000
	2009	2.500	16.12.2019	300,000	299,440
	2010	1.750	25.06.2019	300,000	
	2010	1.750	09.11.2020	299,442	
Total bonds				1,499,442	1,499,440
Total mortgage-backed securities		2.687		1,047,000	996,000
<b>Total bonds and mortgage-backed securities</b>		<b>2.636</b>		<b>2,546,442</b>	<b>2,495,440</b>

## 3.9 Value adjustments / fluctuation reserve for credit risks / reserves for general bank risks

	Balance 31-12-2009 CHF 1000	Usage CHF 1000	Change of purpose (reclassification) CHF 1000	Recoveries, interest overdue, translation differences CHF 1000	Write-offs (debit to income statement) CHF 1000	Recoveries (credit to income statement) CHF 1000	Balance 31-12-2010 CHF 1000
<b>Value adjustments and provisions for default risks and other risks</b>							
Value adjustments and provisions for default risks (including country risks)	168,875	-1,239		52	11,732	-10,362	169,058
Value adjustments and provisions for other business risks	0						0
Provisions for pension plans (FER 16)	107,158	-3,916					103,242
Other provisions (provisions for migration)	26,737	-20,267					6,470
<b>Total value adjustments and provisions</b>	<b>302,769</b>	<b>-25,421</b>	<b>0</b>	<b>52</b>	<b>11,732</b>	<b>-10,362</b>	<b>278,770</b>
less: value adjustments offset against receivables	0						0
<b>Total value adjustments and provisions according to the balance sheet</b>	<b>302,769</b>	<b>-25,421</b>	<b>0</b>	<b>52</b>	<b>11,732</b>	<b>-10,362</b>	<b>278,770</b>
Fluctuation reserves for credit risks	0						0
<b>Reserves for general bank risks</b>	<b>704,000</b>				<b>50,000</b>		<b>754,000</b>

Basellandschaftliche Kantonalbank is exempt from tax on profit and capital. Building of latent tax on the reserve for general bank risks is not necessary.

## 3.10 Company capital, owners with voting rights exceeding 5%

	31-12-2010 Total nominal value CHF 1000	31-12-2010 Quantity	31-12-2010 Capital entitled to dividend CHF 1000	31-12-2009 Total nominal value CHF 1000	31-12-2009 Quantity	31-12-2009 Capital entitled to dividend CHF 1000
Endowment capital	160,000	-	160,000	160,000	-	160,000
Certificate capital	57,000	570,000	57,000	57,000	570,000	57,000
<b>Total company capital</b>	<b>217,000</b>	<b>570,000</b>	<b>217,000</b>	<b>217,000</b>	<b>570,000</b>	<b>217,000</b>
Approved capital	0			0		
Issued and paid-in capital	0			0		

The canton holds 100% of the endowment capital. The funds are brokered by BLKB who assumes responsibility for the debt service.

Certificates do not entitle the holder to any voting rights.

The endowment capital is divided as follows:

	Year of issue	Interest rate %	Due date	31-12-2010 Balance CHF 1000	31-12-2009 Balance CHF 1000
Bond	2000	4.000	17.02.2010		70,000
Loan	2004	2.845	01.10.2012	40,000	40,000
Bond	2002	3.250	30.09.2014	50,000	50,000
Bond	2010	2.550	05.03.2025	70,000	
<b>Total</b>				<b>160,000</b>	<b>160,000</b>

	31-12-2010 Nominal value CHF 1000	31-12-2010 Share %	31-12-2009 Nominal value CHF 1000	31-12-2009 Share %
Canton of Basel-Landschaft	160,000	74	160,000	74
Owners of certificates	57,000	26	57,000	26

## 3.11 Statement of equity

CHF 1000

<b>Equity at the beginning of the year</b>		
Company capital		217,000
– less capital not paid		0
Company capital paid (subtotal)		217,000
Legal reserve		416,860
Reserves for general bank risks		704,000
Own equity		–6,421
Other reserves		1,737
Retained earnings		118,489
<b>Total equity at beginning of reporting year (before profit appropriation)</b>		<b>1,451,665</b>
– Capital reduction		0
– Premium on capital reduction		0
+ Allocation to reserve for general bank risks		50,000
+ Re-qualification reserve for own equity in reserves for general bank risks		0
– Re-qualification reserve for general bank risks in reserve for own equity		0
– Release from reserves		0
– Dividend and other distributions from the annual result of the previous year		–68,026
+ Net profit of the reporting year		108,859
+ Balance of own equity in trading portfolio and financial investment		–2
+/- Profits/losses from disposal of own equity		241
+/- Profits/losses from rate translations		15
<b>Total equity on 31-12-2010 (before profit appropriation)</b>		<b>1,542,752</b>
of which:		
Company capital		217,000
– less capital not paid		0
Company capital paid (subtotal)		217,000
Legal reserve		456,860
Reserves for general bank risks		754,000
Own equity		–6,423
Other reserves		1,993
Retained earnings		119,321

## 3.12 Maturity structure of current assets and borrowed funds

	On demand CHF 1000	Callable CHF 1000	Due within 3 months CHF 1000	Due after 3 to 12 months CHF 1000	Due after 12 months to 5 years CHF 1000	Due after 5 years CHF 1000	Immo- bilised CHF 1000	Total CHF 1000
<b>Current assets</b>								
Liquid funds	114,045							114,045
Money market instruments	246		8,664	3,087	3			12,001
Due from banks	81,724		208,080	80,000				369,804
Due from customers	3,689	299,216	437,385	91,316	137,851	13,463		982,921
Mortgage loans	4,326	1,022,007	687,747	1,785,915	8,590,892	1,605,702		13,696,590
Securities and precious metal trading portfolios	4,342							4,342
Financial investments	76,282		22,989	145,376	904,335	365,563	49,107	1,563,651
<b>Total current assets on 31-12-2010</b>	<b>284,654</b>	<b>1,321,224</b>	<b>1,364,865</b>	<b>2,105,695</b>	<b>9,633,081</b>	<b>1,984,728</b>	<b>49,107</b>	<b>16,743,353</b>
Previous year	343,982	1,777,069	1,627,125	1,921,300	9,864,812	1,257,740	58,114	16,850,142
<b>Liabilities</b>								
Money market instruments	94							94
Due to banks	42,628		75,586		50,000			168,214
Due to customers in savings and deposits		8,148,024						8,148,024
Due to customers, other	3,090,923	1,850	24,742	307,606	170,000	115,000		3,710,122
Cash bonds			34,948	132,556	259,610	18,574		445,688
Bonds and mortgage-backed bonds				96,000	1,031,000	1,419,442		2,546,442
<b>Total liabilities on 31-12-2010</b>	<b>3,133,645</b>	<b>8,149,874</b>	<b>135,276</b>	<b>536,162</b>	<b>1,510,610</b>	<b>1,553,016</b>	<b>0</b>	<b>15,018,583</b>
Previous year	3,288,646	7,549,245	798,888	841,848	1,727,194	925,879	0	15,131,701

## 3.13 Payables and receivables to/from affiliated companies as well as receivables from loans and exposures to the bank's governing bodies

	31-12-2010 CHF 1000	31-12-2009 CHF 1000
Due from affiliated companies	29,294	28,000
Due to affiliated companies	331,494	427,485
Due from members of the bank's governing bodies	85,339	59,156

## Transactions with related parties

Transactions (securities transactions, payment, credit accommodation, compensation, and deposits) with related parties are done at conditions valid for third parties. The bank's employees enjoy the conditions valid for personnel.

## 3.14 Assets and liabilities by domestic and foreign origin

	31-12-2010 Domestic CHF 1000	31-12-2010 Foreign CHF 1000	31-12-2009 Domestic CHF 1000	31-12-2009 Foreign CHF 1000
<b>Assets</b>				
Liquid funds	114,045	0	185,318	0
Money market instruments	12,001	0	12,361	0
Due from banks	127,734	242,070	303,241	556,456
Due from customers	943,154	39,767	671,661	39,087
Mortgage loans	13,696,590	0	13,226,591	0
Securities and precious metal trading portfolios	1,528	2,814	311	2,744
Financial investments	962,463	601,188	1,079,745	772,629
Participations	18,461	0	18,380	0
Tangible fixed assets	167,660	0	163,910	0
Intangible assets	28,110	0	14,593	0
Accrued income and prepaid expenses	114,264	9,766	108,441	0
Other assets	38,212	13	83,989	1
<b>Total assets</b>	<b>16,224,220</b>	<b>895,618</b>	<b>15,868,539</b>	<b>1,370,916</b>
<b>Liabilities</b>				
Money market instruments	94	0	0	0
Due to banks	149,605	18,609	410,295	62,512
Due to customers in savings and deposits	7,767,355	380,669	7,268,318	372,104
Due to customers, other	3,656,932	53,190	3,735,113	34,590
Cash bonds	445,688	0	753,329	0
Bonds and mortgage-backed bonds	2,546,442	0	2,495,440	0
Accrued expenses and deferred income	159,633	2,971	154,691	0
Other liabilities	117,131	0	198,607	22
Value adjustments and provisions	278,770	0	302,769	0
Reserves for general bank risks	754,000	0	704,000	0
Company capital	217,000	0	217,000	0
Legal reserve	456,860	0	416,860	0
Own equity	-6,423	0	-6,421	0
Revaluation reserve	0	0	0	0
Other reserves	1,992	0	1,737	0
Retained earnings brought forward	10,463	0	12,184	0
Annual net profit	108,859	0	106,305	0
<b>Total liabilities and equity</b>	<b>16,664,399</b>	<b>455,439</b>	<b>16,770,227</b>	<b>469,229</b>

## 3.15 Assets by country groups

	31-12-2010 CHF 1000	31-12-2010 Share %	31-12-2009 CHF 1000	31-12-2009 Share %
<b>Assets</b>				
Switzerland	16,224,220	94.77	15,868,539	92.05
Europe	859,196	5.02	1,303,043	7.56
North America	18,318	0.11	42,982	0.25
Asia / Australasia	17,968	0.10	23,692	0.14
Other	135	0.00	1,199	0.01
<b>Total assets</b>	<b>17,119,838</b>	<b>100.00</b>	<b>17,239,456</b>	<b>100.00</b>

## 3.16 Assets and liabilities by currencies

	CHF CHF 1000	USD CHF 1000	Euro CHF 1000	Other CHF 1000	Total CHF 1000
<b>Assets</b>					
Liquid funds	103,670	386	9,630	359	114,045
Money market instruments	11,956	8	37		12,001
Due from banks	254,307	24,648	56,732	34,118	369,804
Due from customers	909,409	13,848	59,605	58	982,921
Mortgage loans	13,696,590				13,696,590
Securities and precious metal trading portfolios	3,982	3	44	313	4,342
Financial investments	1,332,159	37,796	192,327	1,369	1,563,651
Participations	18,461				18,461
Tangible fixed assets	167,660				167,660
Intangible assets	28,110				28,110
Accrued income and prepaid expenses	118,833	784	4,413		124,030
Other assets	37,412	793	19		38,225
<b>Total on-balance-sheet assets</b>	<b>16,682,548</b>	<b>78,265</b>	<b>322,808</b>	<b>36,217</b>	<b>17,119,838</b>
Delivery claims from spot exchange dealings, forward exchange deals, and foreign exchange options	107,910	25,818	81,864	2,720	218,312
<b>Total assets 31-12-2010</b>	<b>16,790,458</b>	<b>104,083</b>	<b>404,672</b>	<b>38,937</b>	<b>17,338,150</b>
<b>Liabilities</b>					
Money market instruments	94				94
Due to banks	92,161	26,570	49,476	7	168,214
Due to customers in savings and deposits	7,983,196		164,828		8,148,024
Due to customers, other	3,532,699	49,675	94,911	32,837	3,710,122
Cash bonds	445,688				445,688
Bonds and mortgage-backed bonds	2,546,442				2,546,442
Accrued expenses and deferred income	162,599	1	1	3	162,604
Other liabilities	116,711	394	26		117,131
Value adjustments and provisions	278,770				278,770
Reserves for general bank risks	754,000				754,000
Company capital	217,000				217,000
Legal reserve	456,860				456,860
Own equity	-6,423				-6,423
Other reserves	1,992				1,992
Retained earnings brought forward	10,463				10,463
Annual net profit	108,859				108,859
<b>Total on-balance-sheet liabilities and equity</b>	<b>16,701,109</b>	<b>76,640</b>	<b>309,243</b>	<b>32,847</b>	<b>17,119,838</b>
Delivery liabilities from spot exchange dealings, forward exchange deals, and foreign exchange options	101,612	27,632	86,414	2,653	218,312
<b>Total liabilities 31-12-2010</b>	<b>16,802,721</b>	<b>104,272</b>	<b>395,657</b>	<b>35,500</b>	<b>17,338,150</b>
Net position per currency	-12,263	-189	9,015	3,437	

Delivery claims or delivery liabilities from currency forward exchange contracts and currency exchange options = contract volume

## 4 INFORMATION ON OFF-BALANCE-SHEET TRANSACTIONS

## 4.1 Contingent liabilities

	31-12-2010 CHF 1000	31-12-2009 CHF 1000
Guarantee for collateralisation of loans and similar	17,220	26,206
Guarantee for warranty and similar	55,318	62,109
Irrevocable commitments	11,923	87
Other contingent liabilities	5,679	5,679
<b>Total contingent liabilities</b>	<b>90,140</b>	<b>94,081</b>

## Joint liability SBTCC

Joint liability of Swiss Bankers travellers cheque centre from the obligation to refund the customer's deposit

## 4.2 Confirmed credits

Liabilities from deferred payments	0	0
Acceptance liabilities	0	0
Other confirmed credits	0	0
<b>Total confirmed credits</b>	<b>0</b>	<b>0</b>

## 4.3 Derivative financial instruments

	Trading instruments			Hedging instruments		
	Positive replacement value 31-12-2010 CHF 1000	Negative replacement value 31-12-2010 CHF 1000	Contract volume 31-12-2010 CHF 1000	Positive replacement value 31-12-2010 CHF 1000	Negative replacement value 31-12-2010 CHF 1000	Contract volume 31-12-2010 CHF 1000
<b>Interest rate contracts</b>						
Futures contracts incl. FRAs	0	0	0	0	0	0
Swaps	7,909	7,779	154,000	101,151	91,764	5,850,000
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Options (exchange traded)	0	0	0	0	0	0
<b>Foreign exchange contracts</b>						
Futures contracts	5,779	5,739	197,354	0	0	0
Combined interest and currency swaps	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	215	215	20,957	0	0	0
Options (exchange traded)	0	0	0	0	0	0
<b>Precious metal contracts</b>						
Futures contracts	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Options (exchange traded)	0	0	0	0	0	0
<b>Equities/index contracts</b>						
Futures contracts	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Options (exchange traded)	0	0	0	0	0	0
<b>Other contracts</b>						
Futures contracts	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Options (exchange traded)	0	0	0	0	0	0
<b>Total before inclusion of netting contracts</b>	<b>13,903</b>	<b>13,733</b>	<b>372,312</b>	<b>101,151</b>	<b>91,764</b>	<b>5,850,000</b>
Previous year	8,327	7,859	314,570	110,889	63,737	5,850,000
			Positive replacement value (cumulated)		Negative replacement value (cumulated)	
<b>Total after inclusion of netting contracts</b>			<b>22,861</b>		<b>13,304</b>	
Previous year			55,479		7,859	

## 4.4 Fiduciary transactions

	31-12-2010 CHF 1000	31-12-2009 CHF 1000
Fiduciary deposits with third-party banks	6,746	9,984
Fiduciary deposits with associated banks	0	0
Fiduciary credits	0	0
Other fiduciary transactions	0	0
<b>Total fiduciary transactions</b>	<b>6,746</b>	<b>9,984</b>

## 5 INFORMATION ON THE INCOME STATEMENT

## 5.1 Refinancing income included in interest and discount income

	2010 CHF 1000	2009 CHF 1000
Refinancing income from trading positions	27	74

## 5.2 Net trading income

	2010 CHF 1000	2009 CHF 1000
Foreign exchange and precious metals	13,026	12,878
Securities	2,134	2,008
Interest rate contracts	120	0
<b>Total net trading income</b>	<b>15,280</b>	<b>14,886</b>

## 5.3 Personnel expenses

Salaries and bonuses incl. attendance fees and compensation paid to bank authorities	-78,762	-76,377
AHV, IV, ALV (pension, disability and unemployment) and other legal benefits	-6,788	-6,047
Contributions to personnel and welfare facilities and pension fund for senior management	-9,456	-69,484
Other personnel expenses	-3,094	-3,335
<b>Total personnel expenses</b>	<b>-98,100</b>	<b>-155,243</b>

## 5.4 Other operating expenses

Premises expense	-5,699	-5,411
Expense for IT, machinery, furniture, vehicles, and other equipment	-22,682	-24,283
Other	-47,952	-36,534
<b>Total operating expenses</b>	<b>-76,333</b>	<b>-66,228</b>

## 5.5 Refinancing income included in interest and discount

	2010 CHF 1000	2009 CHF 1000
<b>Extraordinary income</b>	<b>1,210</b>	<b>23,159</b>
– Profits from disposal of tangible fixed assets	66	22,438
– Other extraordinary income	1,144	721
<b>Extraordinary expenses</b>	<b>–50,771</b>	<b>–35,000</b>
– Deposits for reserves for general bank risks	–50,000	–35,000
– Other extraordinary expenses	–771	0

## 5.6 Revaluation of tangible fixed assets at acquisition value (art. 665 and 665a of the Swiss Code of Obligations)

None.

## 6 INFORMATION ON REMUNERATION AND PARTICIPATIONS

## 6.1 Responsibilities and procedures

The following table details the responsibilities and procedures involved in establishing compensation.

	BR	ChmBD	ExC	ARC	ChmEB
<b>Fixed compensation</b>					
Annual determination of aggregate amount of fixed compensation	D		P		
Fixed compensation to Bankrat	D		P		
Fixed compensation to Executive Board (total)	D		P		
Fixed compensation to chairperson of Executive Board	TN	P	D		
Fixed compensation to further members of Executive Board (individual)	TN		D		P
Fixed compensation to head of internal auditing		D		P	
Fixed compensation to members of senior management					D
Fixed compensation to remaining personnel					D
<b>Variable compensation</b>					
Annual determination of pool total of variable compensation	D		P		
Annual allocation quota of variable compensation according to level of responsibility	TN		D		P
Variable compensation to Bankrat	D		P		
Variable compensation to chairperson of Executive Board	TN	P	D		
Variable compensation to further members of Executive Board (individual)	TN		D		P
Variable compensation to head of internal auditing		D		P	
Variable compensation to members of senior management					D
Variable compensation to remaining personnel					D
<b>Benefits in kind</b>	TN		D		P
<b>Pension regulation</b>	D		P		P

BR = Bankrat, ChmBD = chairman of the Board of Directors, ExC = Executive Committee, ARC = Audit and Risk Committee, ChmEB = chairman of the Executive Board, D = decision, P = petition, TN = takes note

## 6.2 Overview of compensation to the Board of Directors (Bankrat) and the bank's collaborators for the business years 2010 and 2009

Below, there is a summarised overview of the most important key figures:

	Fixed compensation	Variable compensation	Benefits in kind <sup>1)</sup>	Lump sum for expenses	Value of reduced price of KBC	Compensation total	Employer's contribution to social benefits
2010	65,446,830	12,018,300	1,017,437	742,674	1,446,149	80,671,390	16,244,109
2009	62,227,046	12,408,350	938,970	708,047	1,153,058	77,435,470	15 530 705 <sup>2)</sup>

<sup>1)</sup> Benefits for REKA checks and lunch allowance

<sup>2)</sup> without CHF 60 m to provisions for pension fund

Amount of outstanding postponed benefits listed according to benefit instrument in form of certificates

31-12-2010	17727 pcs
31-12-2009	15366 pcs

Ratio of highest to lowest gross compensation

2010	1 to 13.45
2009	1 to 14.55

In 2010 and 2009, no severance packages were paid.

## 6.3 Compensation paid to the members of Board of Directors for the business years 2010 and 2009

Name	Fixed compensation	Variable compensation	Benefits in kind	Lump sum for expenses	Value of reduced price of KBC	Compensation total	Employer's contribution to social benefits	Total personnel expenses
<b>W. Hansen, Chairman<sup>1</sup></b>								
2010	100,000	110,000	–	11,800	12,900	234,700	12,264	246,964
2009	100,000	115,000	–	13,000	11,304	239,304	12,229	251,533
<b>A. Ballmer, Vice-chairman</b>								
2010	20,000	30,000	–	2,500	6,450	58,950	3,400	62,350
2009	20,000	35,000	–	2,200	5,652	62,852	3,387	66,239
<b>D. Schenk<sup>2</sup></b>								
2010	50,000	55,000	–	6,500	12,900	124,400	6,800	131,200
2009	50,000	60,000	–	6,500	11,304	127,804	6,774	134,578
<b>C. Janiak<sup>3</sup></b>								
2010	38,000	40,000	–	4,400	12,900	95,300	4,979	100,279
2009	38,000	45,000	–	5,900	8,478	97,378	4,929	102,307
<b>E. Schirmer</b>								
2010	35,000	40,000	–	4,400	12,900	92,300	4,979	97,279
2009	35,000	45,000	–	5,900	11,304	97,204	4,956	102,160
<b>H.U. Schudel</b>								
2010	35,000	40,000	–	4,400	12,900	92,300	4,979	97,279
2009	35,000	45,000	–	5,900	11,304	97,204	4,956	102,160
<b>P. Hug</b>								
2010	35,000	40,000	–	4,400	12,900	92,300	4,979	97,279
2009	35,000	45,000	–	5,900	11,304	97,204	4,956	102,160
<b>D. Greiner</b>								
2010	35,000	40,000	–	4,400	12,900	92,300	4,979	97,279
2009	35,000	45,000	–	5,900	11,304	97,204	4,956	102,160
<b>U. Baumann</b>								
2010	35,000	40,000	–	4,400	12,900	92,300	4,979	97,279
2009	35,000	45,000	–	5,900	11,304	97,204	4,956	102,160
<b>D. Völlmin</b>								
2010	35,000	40,000	–	4,400	12,900	92,300	4,979	97,279
2009	35,000	45,000	–	5,900	11,304	97,204	4,956	102,160
<b>Compensation total</b>								
2010	418,000	475,000	–	51,600	122,550	1,067,150	57,317	1,124,467
2009	418,000	525,000	–	63,000	104,562	1,110,562	57,055	1,167,617

<sup>1)</sup> Chairman ExC<sup>2)</sup> Chairman ARC<sup>3)</sup> Including CHF 3,000 fee for chairperson of Cultural Foundation

## 6.4 Compensation paid to the members of the Executive Board for the business years 2010 and 2009

Name	Fixed compensation	Variable compensation	Benefits in kind <sup>1)</sup>	Lump sum for expenses	Value of reduced price of KBC	Compensation total	Employer's contribution to social benefits	Total expenses
<b>B. Oberlin, CEO</b>								
2010	380,016	400,000	8,069	24,000	32,250	844,335	131,470	975,805
2009	380,016	415,000	6,209	24,000	28,260	853,485	141,285	994,770
<b>Remaining members of the Executive Board</b>								
2010	1,391,224	1,025,000	32,897	74,667	129,000	2,652,788	481,516	3,134,304
2009	1,219,350	1,105,000	31,388	65,334	141,300	2,562,372	481,252	3,043,624
<b>Total of Executive Board</b>								
2010	1,771,240	1,425,000	40,966	98,667	161,250	3,497,123	612,986	4,110,109
2009	1,599,366	1,520,000	37,597	89,334	169,560	3,415,857	622,537	4,038,394

<sup>1)</sup> Benefits for REKA checks and lunch allowance, company car.

On 1 January 2010, the remaining Executive Board consisted of four members. In the course of the year, there were the following changes: 1 May 2010, entry of D. Brändlin, 30 Sept. 2010, retirement of L. Spiess, 1 October 2010, entry of H. Kumbartzki.

### 6.5 Loans and credits, subscription to KB certificates (in the business year) and KBC stock of the Board of Directors and the Executive Board as per 31 December 2010 and 31 December 2009

Name	Function	Loans and credits per year-end 2010	Loans and credits per year-end 2009	KBC subscribed for in 2010	KBC subscribed for in 2009	KBC stock (locked-up) per year-end 2010	KBC stock (locked-up) per year-end 2009
W. Hansen	Chairman of the Board of Directors	0	0	40	40	100 (100)	60 (60)
A. Ballmer	Vice-chairman	808,500	808,500	20	20	207 (120)	187 (120)
D. Schenk	Member	0	0	40	40	340 (200)	300 (200)
C. Janiak	Member	642,875	647,390	40	30	170 (170)	250 (150)
E. Schirmer	Member	900,000	900,000	40	40	200 (200)	200 (200)
H.U. Schudel	Member	575,000	575,000	40	40	270 (190)	230 (180)
P. Hug	Member	0	0	40	40	640 (200)	600 (200)
D. Greiner	Member	0	0	40	40	220 (170)	180 (150)
U. Baumann	Member	0	0	40	40	370 (200)	330 (200)
D. Völlmin	Member	430,000	430,000	40	40	100 (100)	60 (60)
<b>Total of Board of Directors</b>		<b>3,356,375</b>	<b>3,360,890</b>	<b>380</b>	<b>370</b>	<b>2,617 (1,750)</b>	<b>2,397 (1,520)</b>
Beat Oberlin	Chairman of the Executive Board	564,500	564,500	100	100	905 (750)	875 (875)
Remaining members of the Executive Board	Members of the Executive Board	500,000	600,000	400	400	1,189 (1,154)	1,650 (1,260)
<b>Total of the Executive Board</b>		<b>1,064,500</b>	<b>1,164,500</b>	<b>500</b>	<b>500</b>	<b>2,094 (1,904)</b>	<b>2,525 (1,235)</b>

# Report of the statutory auditor on the financial statements



To the Regierungsrat (executive body) for the attention of the Landrat (legislative body) of the Canton of Basel-Landschaft  
Basellandschaftliche Kantonalbank, Liestal

As statutory auditor, we have audited the accompanying financial statements of Basellandschaftliche Kantonalbank, which comprise the balance sheet, income statement, cash flow statements and notes (pages 31 to 66) for the year ended 31 December 2010.

## Board of Director's responsibility

The Bankrat (Board of Directors) is responsible for the preparation of the financial statements in accordance with the legal requirements and the valuation principles as set out in the notes. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Bankrat (Board of Directors) is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements for the year ended 31 December 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss banking law and comply with the legal requirements.

**Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In the sense of article 728 a paragraph 1 item 3 CO and in accordance with Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Bankrat (Board of Directors).

We further confirm that the proposed appropriation of available earnings complies with the legal requirements. We recommend that the financial statements submitted to you be approved.

Ernst&Young Ltd



Thomas Schneider  
Licensed audit expert  
(Auditor in charge)



Pascal Berli  
Licensed audit expert

Basel, 22 February 2011

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